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FINANCIAL TIMES

Genocide
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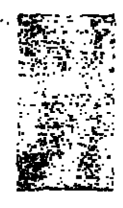

Losing its fizz
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World Business Newspaper WEDNESDAY OCTOBER 25 1995 D8523A

GM poised to beat Ford in tussle for China car project

General Motors is believed to have beaten Ford to secure one of China's largest car manufacturing projects, a $1bn-$2bn facility in Shanghai. Chinese officials indicated GM had been selected and said an announcement was imminent. But the world's two biggest vehicle makers said they had yet to be told whether a partner for the project to build a mid-size car in China had been chosen. Page 20

Polish workers back Daewoo bid: Daewoo's bid to buy the state-owned FSO car factory in Poland in the face of competition from General Motors of the US won the support of the plant's influential workers' council. It voted to back management and government efforts to conclude a deal with the South Korean conglomerate. Page 10

Santer rules out N-test action: European Commission president Jacques Santer said there were no grounds for taking France to the European Court over its south Pacific nuclear test programme. President Jacques Chirac said France would probably carry out four more tests, two fewer than planned. Page 3; EU commissioner struggles to defend book, Page 20

Berlusconi supporters predict victory: The promoters of the no-confidence motion brought by former prime minister Silvio Berlusconi against the Italian government claimed they had enough votes to win a majority. Page 4

Matsushita, Japan's largest consumer electronics maker, brushed aside a sales slump in the first half of the year and increased recurring profits by 10 per cent from Y37.4bn a year ago to Y41.2bn ($411.8m), mainly by cutting costs and raising manufacturing efficiency. Page 21

China earthquake kills 29: An earthquake hit China's rural, densely-populated Yunnan province, killing at least 29 people, injuring 100 and leaving many farmers homeless. The tremor measured 6.5 on the Richter scale. Page 8

RJR Nabisco shares fall: Shares in US tobacco and food group RJR Nabisco, sank 7 per cent, or $2¼, to $29⅝ in early afternoon trading after the company forecast lower-than-expected earnings. Page 21

Tapie admits lying over football scandal:

Bankrupt businessman and former French cabinet minister Bernard Tapie (left) admitted to an appeal court that he had lied over a football match-rigging scandal. The former Marseille football club boss is trying to overturn a previous sentence of a year in jail for bribery. He abandoned earlier point-blank denials by admitting he met the ex-trainer of Valenciennes, the other club involved in the scandal.

German pledge on troops for Bosnia: The German cabinet said it would commit around 4,000 troops to former Yugoslavia if a peace plan can be approved between the three warring parties. Page 2

Tokyo gas attack trial begins: The first defendant accused of taking part in the Tokyo nerve gas attack went on trial. Members of the Aum Shinri Kyo cult face murder and attempted murder charges after the underground station attack in March which killed 11.

BASF worker dies in blast: One worker was missing and three others injured when an explosion ripped through a ship unloading toxic chemicals at BASF's main plant in Ludwigshafen, Germany.

Times Mirror, the ailing US media group, reported a net loss of $299m, or $2.98 a share, for the third quarter after absorbing $360m in restructuring charges. Page 21

HK and Taiwan agree air deal: Taiwan and Hong Kong have ended a deadlock over air services, agreeing to double the number of carriers flying the lucrative north Asian route. Page 10

Motorola, the US electronics group, plans to increase its manufacturing capacity for smartcard microchips tenfold to 10m a week. Page 10

China's tax revenues rise: China's tax revenues increased by about 30 per cent in the first nine months of the year compared with last year, but tax avoidance remains a big problem for the authorities. Page 8

Hollywood star honoured: Hollywood star Sharon Stone, whose films include *Basic Instinct*, was made a knight of France's Order of Arts and Letters for "serving the world's culture".

■ STOCK MARKET INDICES

New York lunchtime:		
Dow Jones Ind Av	4,774.63	(+19.15)
NASDAQ Composite	1,036.83	(+1.91)
Europe and Far East		
CAC40	1,724.21	(+3.07)
DAX	2,113.60	(+6.18)
FT-SE 100	3,535.3	(+3.8)
Nikkei	18,014.25	(-141.99)

■ US LUNCHTIME RATES

Federal Funds	$5\frac{11}{16}$%
3-mth Treas Bills: Yld	5.347%
Long Bond	$106\frac{31}{32}$
Yield	6.346%

■ OTHER RATES

UK: 3-mo Interbank	$6\frac{3}{4}$%	(same)
UK: 10 yr Gilt	$101\frac{13}{32}$	(same)
France: 10 yr OAT	101.58	(101.20)
Germany: 10 yr Bund	99.95	(99.94)
Japan: 10 yr JGB	112.570	(112.739)

■ NORTH SEA OIL (Argus)

Brent 15-day Dec	$16.05	(15.87)

■ GOLD

New York: Comex		
Dec	$384.2	(same)
London:		
close	$382.4	(382.75)

■ DOLLAR

New York: lunchtime		
£	1.5795	
DM	1.3910	
FFr	4.89965	
SFr	1.13675	
Y	100.40	
London:		
£	1.5815	(1.581)
DM	1.387	(1.3851)
FFr	4.8737	(4.886)
SFr	1.1301	(1.1261)
Y	100.175	(99.695)

■ STERLING

DM	2.1936	(2.1899)
Tokyo close:	Y 100.05	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lw110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	Sk60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	Kc55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 4.20	Syria	S£50.00
Finland	FM15	Kuwait	Fils625	Portugal (m'land)		Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.50		Es230	Turkey	L60,000
Germany	DM3.60	Lux	LFr70			UAE	Dh12.00

Québécois take independence worries to the bank

Fear of poll victory by separatists sparks account transfer inquiries

By Bernard Simon in Toronto

Business is brisk at banks just across the border from Quebec. Fears that separatists could win next Monday's Quebec independence referendum have prompted a rush of inquiries about transferring bank accounts to New York state and to the rest of Canada.

There are other signs of capital flight. The Canadian dollar has fallen sharply, short-term interest rates have risen, while the gap between long-term Quebec and government of Canada bond yields has widened in recent days from 0.63 to 0.97 percentage points, the widest spread among Canada's 10 provinces.

Voters in the French-speaking province will have to decide on Monday whether to remain part of Canada or to become independent. The referendum question calls for a new political and economic partnership with the rest of Canada.

Fearing a secessionist victory, many Quebec companies and residents are shifting financial assets out of the province. One big Canadian bank has hired extra staff at branches in Ottawa, across the border from Quebec.

Opinion polls show a slim majority of Québécois in favour of sovereignty. However, federalist forces remain cautiously optimistic that the economic costs of separation, emphasised by current market turbulence, will reverse the separatist momentum over the next few days.

Market nervousness reflects uncertainty about financial arrangements between an independent Quebec and the rest of Canada, including Quebec's debt obligations and the status of the Canadian dollar inside Quebec.

The apportioning of the federal debt, totalling about C$580bn, would be expected to be one of the most divisive issues in negotiations between an independent Quebec and Canada.

Although Quebec accounts for a quarter of Canada's population, separatist leaders have indicated they would expect to take on less than one-fifth of the federal debt burden. They would also use debt payments as a lever to gain economic and political concessions from Canada.

Debt concerns are exacerbated because Quebec has been slower than the other nine provinces to tackle its own fiscal problems.

The Bank Credit Analyst, a Montreal research group, estimates that an independent Quebec's foreign debt-to-exports ratio would be three times the Organisation for Economic Co-operation and Development average, and 8 percentage points higher than the average of the four most indebted industrial countries.

The Canadian dollar fell to a low of 72.56 US cents yesterday morning, from 74.59 last Thursday, but rallied slightly later, trading at just above 73 US cents. Canadian bond prices also recovered after early losses.

The Bank of Canada responded to nervousness in the markets by raising its discount rate by almost 1 percentage point to 7.65 per cent at its weekly setting.

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China hits at US ahead of meeting with Clinton

By Quentin Peel in New York

Mr Jiang Zemin, China's president, yesterday used the United Nations' 50th anniversary celebrations to launch an attack on the US government hours before he was due to have a summit with President Bill Clinton.

The meeting between Mr Jiang and Mr Clinton was intended to restore a relationship which has deteriorated over the past year. But in a clear reference to the US, Mr Jiang hit at "certain big powers" which "set out to encroach upon the sovereignty of other countries, interfere in their internal affairs and undermine their national unity and ethnic harmony".

The Chinese leader accused these "powers" of using the UN "as a signboard under which to advance their own political interests", leaving the world organisation effectively "in limbo".

The speech, seen as a deliberate effort to raise his profile on the world stage, as well as back in Beijing, underlined the difficulties in relations between the two countries.

However, US officials were still hopeful that yesterday's two-hour summit between Mr Clinton and Mr Jiang would help to clear the air and re-establish some degree of normality to their dialogue.

In particular, they are hoping to reopen talks on important issues such as missile proliferation, the peaceful uses of nuclear energy, export controls, human rights and military exchanges, all of which were cut off by Beijing after the mid-year visit of Taiwan's president Mr Lee Teng-hui to the US. The status of Taiwan itself is not expected to be a major issue, although Mr Jiang was adamant that the island was "an inalienable part of Chinese territory".

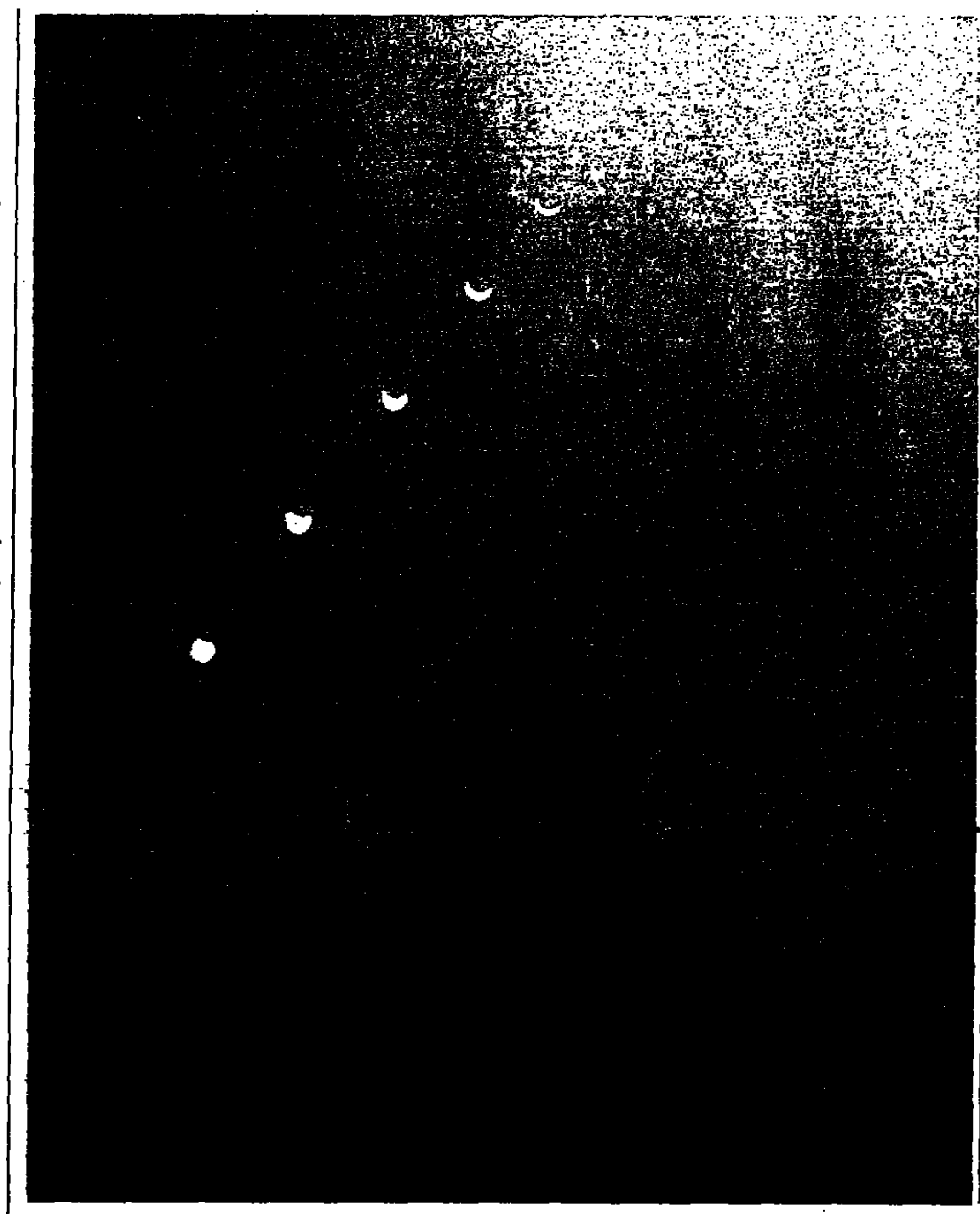
The acute sensitivity of the Chinese government was underlined by Mr Jiang's refusal to hold his talks with Mr Clinton at the New York public library because of an exhibition there on human rights.

Non-interference was the repeated theme of his speech, as well as the "unfair and irrational international political and economic order". While he paid tribute to the UN for its success in mitigating regional conflicts, and "eradicating colonialism", he also said it had failed to curb the domination of the great powers.

He attacked the UN peacekeeping operations, saying they must not be turned into "intervention of a disguised form in the internal affairs of member states".

At the same time, however, he admitted that China "cannot stand in separation from the rest of the world", saying that the reform and modernisation process in his country meant it was essential to play its part in international co-operation.

UN divided over reform, Page 9
A duty to meddle, Page 18
Observer, Page 19



A total solar eclipse covered parts of Asia yesterday, bringing near-darkness to a 60-mile-wide band running from central Iran, through northern India and Thailand to Indonesia. Millions stopped to watch the eclipse, shown in a multi-exposure image over India's Taj Mahal Reuter

German growth set to slow as building boom ends

By Judy Dempsey in Bonn

German consumer spending will recover next year but economic growth will be a modest 2.5 per cent because a building boom that followed unification in 1990 will come to an end, the country's main economic institutes forecast yesterday.

The institutes warned that the slowing of demand in the construction industry, especially in eastern Germany, meant unemployment was likely to remain above nine per cent, but they are expecting stronger economic growth in the second half of the year. They also warned the government would find it difficult to keep the budget deficit under its DM60bn ($43bn) target next year. Slower-than-expected economic growth this year will contribute to a shortfall in tax revenue that the government estimates at DM20bn over this year and next.

The controversial "solidarity" income tax surcharge re-introduced this year to finance the soaring costs of unification was unlikely to be lifted soon because eastern Germany was still dependent on assistance, the institutes said. Transfers this year to the east will total DM194bn. The Federation of German Chambers of Industry and Commerce said the

Continued on Page 20

Job prospects gloomy, Page 2

Row looms between Italian banks over Ferfin cash call

By Andrew Hill in Milan

A row is threatening to break out between Mediobanca, the Milan merchant bank, and some of Italy's largest commercial banks over the surprise L1,035bn ($640m) rights issue proposed on Monday by Ferruzzi Finanziaria (Ferfin), the Italian holding company.

Ferfin's largest shareholders are former creditor banks, which converted debt into equity in 1993 to rescue the holding company and Montedison, the industrial group it controls, from the brink of bankruptcy.

The largest shareholder – Istituto Bancario San Paolo di Torino, Italy's biggest bank – yesterday hinted it was unhappy with the latest call for new capital organised, like the debt restructuring, by Mediobanca.

San Paolo, which owns just over 15 per cent of Ferfin, has not commented officially on the operation but sources close to the bank described it as "unorthodox and unnecessary". Analysts said the rights issue was partly aimed at deterring predators from bidding for Ferfin.

Ferfin was at the centre of a controversial plan to merge with Gemina, the investment company controlled by Italy's business establishment. But Gemina was forced to shelve its merger plan on Monday. Its shares have been under pressure since magistrates announced they were investigating allegations of falsification of accounts at the company.

Ferfin's shares – dragged down by the merger plan – rebounded strongly yesterday, helped by continuing rumours that San Paolo, and its banking allies Monte dei Paschi di Siena, and Cariplo, the Milan savings bank, might be searching for a white knight to mount an alternative bid. There is still scepticism among analysts, however, about the willingness of banks to take on Mediobanca, which dominates the corporate finance market through a mixture of technical skill and historic influence over a group of Italy's oldest companies.

An extraordinary meeting of Ferfin shareholders has been called for December. Together San Paolo, Cariplo and Monte dei Paschi own just over 21 per cent of Ferfin, and could rally a further 10 per cent if neutral banks also decide to rebel against Mediobanca. But Mediobanca's traditional banking allies – Credito Italiano, Banca Commerciale Italiana and Banca di Roma – own nearly 25 per cent of the company. Altogether, former creditors of Ferfin are believed to own nearly 70 per cent of the shares, which have underperformed those of Montedison since rescue rights issues last year.

Ferfin claims the latest rights issue is necessary to eliminate short-term debt and underwrite a capital increase by Fondiaria, its quoted insurance subsidiary. The group has also admitted it has fallen behind on plans to raise L1,500bn through the sale of property between 1993 and 1997.

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Rights plan discontent, Page 22

CONTENTS

Economic institutes forecast only slight fall in unemployment

German jobs prospects gloomy

By Judy Dempsey in Bonn

Consumer spending in Germany will rise by an average of 3 per cent next year, the strongest for several years. But its impact on jobs will be minimal because capital investment, particularly in buildings, will slow markedly over the coming months. These are the conclusions of Germany's six economic institutes in their autumn report.

Growth in consumer spending, they say, will be fuelled by the introduction of higher tax thresholds (benefiting the less well-off), an increase in child allowances and the abolition of the *Kohlepfennig*, the surcharge imposed two decades ago on electricity consumers to subsidise domestic coal production.

The institutes say the increase will be welcomed particularly by the retailing sector where sales have declined because of high taxes, among them the unpopular solidarity tax to finance the costs of German reunification. Consumer spending grew by only 0.9 in 1994. The institutes expect it to increase by 1.5 per cent this year.

They warn, however, that any jobs created by higher consumer spending will be negated by a sharp fall in investment in construction. The trend will lead to stagnation in this sector, as the boom, fuelled in particular by large projects in east Germany after unification, ends.

Capital investment, they predict, will grow by 2.5 per cent this year compared to 4.3 per cent the previous year. Next year, growth will slow further to 2 per cent with investment in buildings showing the weakest growth rate – 1.5 per cent this year compared to 7.8 per cent in 1994, and falling to zero growth next year.

"With these figures we cannot expect any positive impact on jobs created by the rise in consumer spending," said Mr Heiner Flassbeck, chief economist at the DIW institute, one of the contributors to the report. The unemployment rate in Germany will only fall slightly from 9.6 per cent in 1994 to 9.4 per cent this year and about 9.2 per cent next year, the equivalent of 100,000.

The Association of German Industry, the BDI, said yesterday that the institutes' estimates presented a poor outlook for the labour market, which remained "the biggest challenge for economic policy".

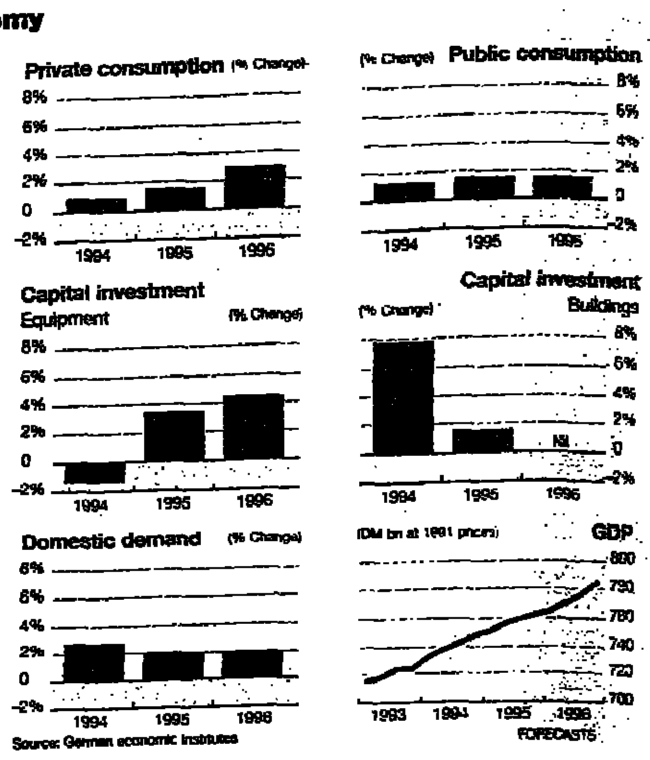
The institutes reckon that persistent high labour costs in west and east Germany are forcing companies to make savings through redundancies. Labour costs in the east are a third higher than west Germany because of low productivity and high wages.

In addition, an increasing number of companies are investing abroad in an attempt to save on production overheads.

A report published earlier this week by the federal economics minister showed that, for the first six months of this year, German investments abroad doubled, rising to DM28.2bn (£12.3bn) compared to the same period the previous year.

The institutes say the rise in investment outside Germany should not adversely affect the level of investments in east Germany particularly since the government has prolonged special grants to modernise the region's economy.

Outlook for the economy



Source: German economic institutes

Irish economic recovery brings biggest rise in jobs since 1972

By John Murray Brown in Dublin

Ireland's crippling unemployment problem eased sharply in 1994-95 as the economy created 49,000 new jobs, the biggest annual increase since 1972. The number of unemployed dropped by 26,000 to 192,000, the lowest figure since 1991. However, at 13 per cent this is still the second highest rate in the European Union after Spain's, and Ireland still has the highest rate of long-term jobless in the European Union.

The figures, released yesterday by the Central Statistics Office, cover the 12-month period up to April and provide new evidence of the recent strength of the economy, which grew by 7.4 per cent in 1994, the highest rate among the 25-member Organisation for Economic Co-operation and Development. Ministers have forecast growth at around 5.25 per cent this year.

The recent economic recovery has also stemmed the flow of net migration, which reached a peak of 43.900 in 1989. According to the CSO, this was running at just 6.000 in 1995 – with the UK accounting for 57 per cent of Irish emigrants.

"The results certainly counter those who say Ireland has been experiencing jobless growth," said Mr Jerry Sexton of Dublin's Economic Social Research Institute.

The CSO report is based on a survey of 47,000 households, and suggests that industry and manufacturing accounted for 12,000 new jobs, while 39.000 jobs were created in the services sector. The figures are somewhat flattered by the 10.000 jobs created under state sponsored employment schemes. Also, it is estimated that perhaps a third of the jobs in the service sector were part-time.

The number of new jobs was evenly split between male and female, underlining the continuing growth in women's participation in the workforce, which traditionally has had one of the lowest rates in the European Union. The number of women in work increased by 24,000 of whom 21,000 were in services – banking and retailing.

The government welcomed the figures, which Mr Ruairi Quinn, the economy minister, said vindicated the government's employment policy outlined in last year's budget.

Ireland is undergoing dramatic changes in work patterns, with jobs in agriculture declining in line with the reduction in farm support under the EU's common agricultural policy, and the steady increase in non-farm employment, which has grown every year since 1987. The numbers also reflect the increase in people in tertiary or university-level education.

EUROPEAN NEWS DIGEST

Bosnia role for German troops

The German cabinet yesterday said it would commit a total of around 4.000 troops to former Yugoslavia if a peace plan could be approved between the three warring parties.

The decision marks the largest foreign deployment by the Bundeswehr, the 40-year-old German armed forces, but must first be approved by the Bundestag, the lower house of the German parliament. So far Germany has sent about 1.500 troops to former Yugoslavia, mainly engineers and medical personnel. A government spokesman underlined Germany's earlier decision not to send fighting troops to the region nor to station any forces in Bosnia because of Germany's involvement there during the second world war.

As part of the 2,500 extra troops, the Bundeswehr will send more engineers, staff officers and aerial reconnaissance forces. The troops would be sent for an initial period of 12 months and the deployment is expected to cost DM700m (£307m). The Bundestag will only be asked to approve the decision once a peace settlement has been reached. *Michael Lindemann, Bonn*

Some MPs desert Scharping

Mr Rudolf Scharping, the embattled leader of Germany's Social Democrats, was yesterday re-elected as head of the parliamentary party but saw his support drop by almost 20 per cent, a result which is likely to increase uncertainty about his long-term leadership of the party.

During the elections 190 members of the 240-strong parliamentary party voted for Mr Scharping, representing 79 per cent of the vote. During the last election for the parliamentary leadership a year ago, Mr Scharping was backed by 98 per cent of SPD deputies.

The vote comes just days after the SPD scored its worst post-war results in the elections for the parliament of the city state of Berlin, a setback which has in large measure been blamed on the infighting among senior members of the party who are not satisfied with Mr Scharping's leadership. Mr Scharping is expected to survive an SPD national congress which begins on November 14 but many observers suggest it will be difficult for him to hold on to the leadership of the party in the long term. *Michael Lindemann*

Contest develops for Nato post

Mr Uffe Ellemann-Jensen, the Danish candidate to become secretary-general of Nato, laid out his credentials before Mr Malcolm Rifkind, Britain's foreign secretary, yesterday amid signs that at least one rival bidder was gaining ground.

The prospects of Mr Ruud Lubbers, a former prime minister of the Netherlands, may receive a boost tonight when President Jacques Chirac of France – who is understood to support the Dutch candidate – confers with Chancellor Helmut Kohl of Germany.

Mr Kohl has hitherto taken a dim view of the candidacy of Mr Lubbers, but his objections are believed to be softening following the recent improvement in Dutch-German relations. The failure of either the Dutch or the Danish candidate to establish himself as a clear favourite has fuelled speculation that the alliance will look further afield.

Mr Javier Solana, the Spanish foreign minister, is understood to be interested, and several continental European diplomats said they would prefer a strong British candidate to any of the figures so far named. Among previous UK foreign secretaries, Mr Douglas Hurd is believed to be well entrenched in a new banking job, while Lord Owen would draw strong US objections. *Bruce Clark, London*

More routes for French airlines

The French government was last night reported to have decided to open all its internal air routes to French airlines from January 1 next year, in a move to prepare domestic carriers for the total opening of European air services in April 1997. The decision, which Ms Anne-Marie Idrac, the junior transport minister, last night unveiled to the CSAM commercial aviation council, will not have a big impact, because the European Commission last year ordered Paris to end the monopoly of Air Inter, the main domestic carrier, on the high-volume routes from Paris to Marseilles and Toulouse.

These routes, together with Paris-Nice, account for 40 per cent of domestic air traffic through Paris. However, smaller airlines such as AOM, Air Littoral, TAT and Air Liberté will now also be able to serve minor routes, before facing full European competition in 18 months. *David Buchan, Paris*

Italian army corruption probe

Milan magistrates yesterday issued almost 20 arrest warrants for army officers allegedly involved in an elaborate system of bribes in return for the award of supply contracts.

The investigation is the most wide-ranging into military graft since the anti-corruption campaign began in 1992. Until now procurement in the armed forces has been considered too sensitive an area to be investigated. This move underlines a renewed boldness among the magistrates at a time of political uncertainty.

The investigations have centred on the award of contracts for equipment ranging from clothing and boots to items such as toothpaste. The bribes allegedly covered 1-2 per cent of the contracts' value and were split in percentages by rank. Those issued with arrest warrants yesterday included a general, a colonel and a major. *Robert Graham, Rome*

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Brussels let-off for France on N-tests

By Lionel Barber in Strasbourg

The European Commission yesterday backed away from a showdown with France and declared that there were no grounds for taking Paris to court over its nuclear tests in the South Pacific.

The Commission announcement before the European Parliament came one day after President Jacques Chirac said France would probably scale back the total number of tests from eight to six blasts, ending next spring.

The compromise appeared to get all parties off the hook of a controversy which threatened to poison relations between a sovereignty-conscious France, an activist majority of MEPs determined to stop the tests, and a Commission caught in the cross-fire.

France has already pledged to sign the Nuclear Test Ban treaty next year and to press all other nuclear powers to subscribe to a "zero option" covering smaller devices.

The question addressed yesterday was whether the Commission could apply Article 34 of the Euratom treaty to take France to the European Court of Justice for conducting nuclear tests which were "particularly hazardous" to the workers and local population.

Mr Jacques Santer, president of the Commission, said the Brussels executive had weighed carefully its powers under the treaty, as well as an unprecedented amount of scientific evidence provided by Paris on the tests. On Sunday night, the Commission had concluded, without dissent, that the tests under way did not pose a perceptible risk of significant exposure (to radiation) to workers or the population, and that Article 34 did not therefore apply, Mr Santer told MEPs.

He said a delegation of Commission experts visited Mururoa and found that the level of radiation was 10 microSieverts as opposed to the allowed exposure level of 5,000 microSieverts.

Mrs Ritt Bjerregaard, the Danish environmental commissioner who led the Commission charge against the tests, insisted she was satisfied with the outcome.

The Commission had clarified its treaty powers and had carved out a role in monitoring both military and civil nuclear tests.

"The Commission does not have the power to say Yes or No to the tests," said Mrs Bjerregaard.

The Socialists and the centre-right European People's party, the two main political groupings, appeared satisfied the Commission had discharged its duty. But Mr Gjis de Vries, leader of the Liberals, called for Mrs Bjerregaard's resignation, saying she had lost all credibility.

In addition to writing her memoirs just six months after becoming a commissioner, Mr de Vries said Mrs Bjerregaard had created schisms within the Commission by "going solo and appearing like the Guardian Angel with the flaming sword of the Euratom treaty in hand".

Other MEPs rallied to the Commissioner's support, urging her to continue long-term monitoring of the French tests and possible damage to Mururoa atoll. A vote is due to take place tomorrow in Strasbourg.

Commission president Jacques Santer at the European Parliament yesterday Reuter

Deadlock over compensation for farmers

By Caroline Southey in Luxembourg

European Union agriculture ministers were last night struggling to break the deadlock over plans to allow governments to pay farmers out of state coffers for losses suffered from currency devaluations in other member states.

The plan, initiated by France, became the price for its support for an overall deal in June which covered the EU's agrimonetary regime and the transport of live animals.

France has maintained that its farmers have been undercut by cheap imports from Italy and Spain following devaluations of the lira and peseta. Examples it cites are the sharp drop in French beef and veal exports to Italy and a flood of cheap Spanish fruit and vegetable imports.

Britain, Sweden, Italy and Portugal last night remained opposed to the plan despite the political agreement reached in June. The UK and Sweden were pressing for the proposal to spell out tougher conditions under which aid could be paid.

"The UK wants to make sure aid is genuinely approved only in cases where there is a loss from currency movements and not something else, and that payments are no higher than the actual loss suffered," said a British official.

Although the Commission was critical of the deal, it has refused to change the terms agreed in June, arguing that the safeguards were sufficient and that it would have the final right of veto over any proposed aid payments. "We will be careful to ensure compensation is only for losses incurred," said an official.

The proposal contains safeguards which are expected to blunt its impact. Member states must prove that "considerable losses" have been incurred as a result of "significant currency movements which have occurred in other member states", and aid will be considered only for losses suffered from the beginning of the 1994/95 marketing year until December 1995 and will be reduced over three years.

Schengen pact open to non-EU members

By Emma Tucker in Brussels

Member countries of the Schengen accord yesterday agreed that two non-EU states – Norway and Iceland – should be allowed to join the arrangement that in theory abolishes passport checks between them.

The accord is only open to EU countries, but the founding nations – France, Germany, Spain, Portugal, Belgium, Luxembourg and the Netherlands – are prepared to bend the rules in order to preserve a 40-year-old Nordic passport union that has allowed Norway, Iceland, Sweden, Finland, and Denmark to do away with formal internal border checks. Sweden, Finland and Denmark – all EU members – have postponed participation in Schengen until the Nordic passport union issue is resolved.

Mr Johan Vande Lanotte, the Belgian interior minister, who chaired yesterday's meeting in Brussels, said the two outsiders would have to accept all Schengen's rules before specific negotiations for full membership could begin.

Interior ministers from the Schengen countries also reviewed the problems that have plagued the agreement since it was signed in March.

France in effect pulled out of its core commitment in June by insisting that it be allowed to maintain land-border controls because of the threat of terrorism.

The ministers reviewed an 11-point plan drawn up by the Belgian presidency in response to France's concerns. These covered lack of consistency in the issuing of visas to non-Schengen nationals; policy on asylum; and problems with the Schengen information system, which allows national immigration and police forces to exchange information.

Mr Michel Barnier, the French European affairs minister, said he favoured the idea of "mobile" border controls whereby national police forces stepped up security measures in and around frontier areas in collaboration with their neighbours.

The indiscreet charm of the EU commissioner

It was always thus, writes **Hilary Barnes**, of the Danish representative with the caustic reminiscences

If Chancellor Helmut Kohl did indeed give the impression at a meeting in Berlin earlier this year that he did not know who Mrs Ritt Bjerregaard was, it is something of a certainty that next time he meets her, the German leader will recognise the fractious European Commissioner for the environment.

Thus Mrs Bjerregaard, whose complaint about Mr Kohl is contained in a book she has written about her first six months in Brussels, will have gained a point, and will have gained it in much the same way as she did so often in the past in Danish domestic politics – through carefully calculated use of the politics of provocation to influence policy.

Like all good political diaries, *Kommissaerens Dagbog* (The Commissioner's Diary), to be published on Saturday by Aschehoug of Copenhagen, is indiscreet.

But her comments on fellow commissioners and European political leaders would not have raised an eyebrow but for the fact that they are being published now, rather than after Mrs Bjerregaard's retirement from the Commission.

Her comments on the high and mighty are often derogatory – particularly those on Mr Jacques Chirac, the French president.

She calls his nuclear test programme in the Pacific "beyond understanding", and in a lengthy passage referring to a lunch in Strasbourg in July – where, to her intense irritation, the hotel had her down as Monsieur Bjerregaard – she described the disdain with which Mr Chirac treated Mr Jacques Santer, the president of the Commission.

Mr Chirac, she said, never once spoke a word to Mr Santer, although they were sitting next to each other.

"Altogether, Chirac made a very poor impression, and I couldn't help thinking of the elegant and worthy... [François] Mitterrand. There's really a great difference between the two presidents, and I don't believe that Chirac will grow with the job."

She may also have upset constitutional purists with a detailed account of her battles to win support at meetings of the Commission itself, which are supposed to be confidential.

But throughout the diary she aims her shots at people in their political capacities – her indiscretions do not extend to their private lives.

Back home in Denmark, her exercise in political provocation has not won her friends. Outraged comments by former Danish colleagues betray concern that her indiscretions may cause her to lose friends and political clout in Brussels.

As one of her old Social Democratic party colleagues, Mr Mogens Lykketoft, the finance minister, said: "This appears to be an interesting attempt to quarrel with everyone in Europe. It will be fascinating to see if she succeeds."

But Mrs Bjerregaard is not remotely contrite. It would not be like her if she was. Asked last year, just before she took up her position in Brussels, whether her provocative attacks on Danish policy, not least the policies of her own Social Democratic party, had been worthwhile, she said they had – they had changed policies.

Her forthright views also brought her recognition from the voters. In the elections to the Folketing, the Danish parliament, last year, she scored more votes than any other politician on the party list.

She had no illusions before taking up her job in Brussels that she would avoid conflicts with fellow commissioners, but said: "As you know, I am not afraid of conflict."

She sees her job in Brussels as a political job, not an administrative one. She believes that for the work of commissioners to become effective, a dialogue with the public – and not just other commissioners and lobbyists – is necessary, so that issues can be discussed openly before, rather than after, decisions are taken.

"I don't know how this is to be done, but this is my aim," she said last year.

In the diary, she explains that her aim is to de-mystify what goes on in Brussels and to get ordinary people to take an interest in what is going on there.

Whether her provocation will help her to win policy battles is another matter, but there is method in it.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850. Fax ++49 69 596 4481. Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd. London and F.T. (Germany Advertising) Ltd. London. Shareholder of the above mentioned two companies is The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297 0621. Fax (01) 4297 0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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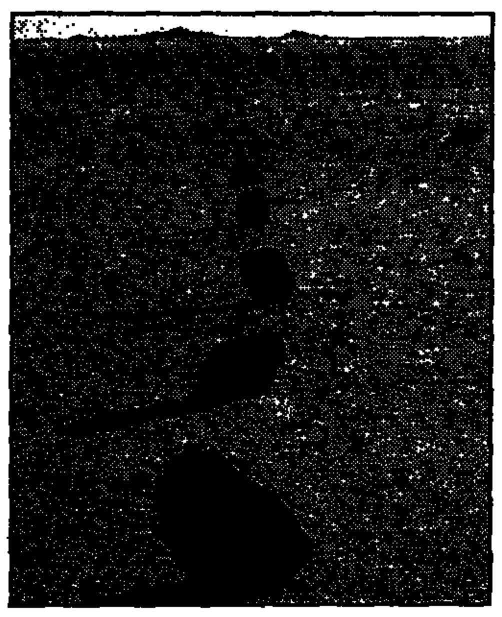

A foreign exchange highway.

An oil and gas highway.

A news highway.

A shipping highway.

Dini government's fate now in hands of unholy alliance

Berlusconi senses victory

By Robert Graham in Rome

The promoters of the no-confidence motion against the Italian government of prime minister Lamberto Dini claimed last night they had enough votes to win a majority.

But they also warned as the debate got under way last night that last-minute changes of mind by individual deputies could make the outcome in the chamber of deputies very close.

The motion brought by the right-wing alliance, headed by Mr Silvio Berlusconi, the former prime minister and leader of Forza Italia, is expected to be supported by the right's ideological opponent – Reconstructed Communism, the party formed from the hardline of the old Communist party.

These two groupings claim they can muster between them 316 votes, against 309 for the centre-left alliance backing the government of Mr Dini.

But a number of deputies on the right were concerned at being associated with MPs whose ideals are still deeply rooted in Marxism. The communists for their part dislike being linked in such a key vote with former fascists from the National Alliance.

Mr Mario Segni, the reformist leader and member of the centre-left, opening the debate, strongly attacked this alliance of mutual convenience. He accused Mr Berlusconi of being irresponsible in bringing the no-confidence motion and the hard left of being wholly cynical in supporting it.

Mr Berlusconi told parliament last night that the eight-month-old government had ceased to operate as a neutral administration of technocrats and had become completely politicised. This change, he said, was formalised by the removal last week of Mr Filippo Mancuso, the justice minister, on a motion of no confidence brought by the government's centre-left backers.

Mr Berlusconi called on Mr Dini to resign before the vote. But Mr Dini has let it be known he will defend his government and do nothing until the votes have been counted.

Berlusconi: last night called on Dini to resign before MPs voted

Greek mortgage war worries central bank

By Kerin Hope in Athens

Greece's central bank has warned that an outbreak of competition in the domestic mortgage market risks expanding credit too quickly and diverting funds from savings.

Mortgages are an increasingly important part of the housing scene because of a surge in property prices and a decline in the dowry system, under which parents felt obliged to provide their daughters with a home.

The central bank warning comes after a rash of mortgage offers at sharply reduced interest rates prompted a flood of applications from would-be home buyers. Alpha Credit Bank, the largest private bank, started the price cuts, slashing mortgage rates by five percentage points to a fixed 12 per cent for the first five years of a 15-year mortgage. This forced state banks, which charge high interest rates to cover high operating costs, to compete.

The state-controlled National Mortgage Bank and National Housing Bank are now offering mortgages at 13.5 per cent for the first three years. Other banks with smaller mortgage portfolios have cut interest rates by two or three percentage points to about 16 per cent, but without committing themselves to a fixed interest rate.

The central bank is worried that interest rates are falling faster than is justified by Greece's precarious economic recovery. Alpha Credit cut corporate lending rates by four percentage points this year as part of a campaign to increase its market share at the expense of state-owned banks, which control more than 60 per cent of lending in Greece.

Other Greek banks followed suit, encouraging private-sector companies and state enterprises to snap up loans for working capital at around 17 per cent, the cheapest credit available since the 1980s. Overall credit expansion increased by 10 per cent in the first half of the year, outpacing the central bank's target of 6-8 per cent.

A senior Bank of Greece official said: "Credit expansion is still being contained, but we would be concerned by an excessive expansion."

High real interest rates on Greek government bonds have attracted heavy inflows of foreign exchange in the past year, which have helped keep the drachma stable and restore confidence in Greece's fragile economy. But the European Union warned the government recently that any loosening of fiscal and monetary policies would precipitate a flight of "hot money" out of government bonds with possibly disastrous consequences for the Greek currency.

Competition has sharpened among Greek banks, following liberalisation of the banking system under single market rules. But until now banks have been unwilling to offer mortgages of more than 10 years and have been reluctant to lend to the self-employed. One Greek banker said: "Greece's tradition of political and financial instability has made banks exaggeratedly cautious about any form of long-term exposure, especially to individual borrowers".

Albania plans law to purge ex-communists

Kevin Done reports on moves to punish backers of the old tyranny

Albania's government, shaken by the rejection in a referendum last year of a new constitution and facing a bruising general election campaign next spring, is introducing a "genocide" law aimed at barring former senior communist officials and collaborators from seeking public office until 2002.

The law, similar to disputed legislation in the Czech Republic which is likely to be extended from 1996 to 2000, will prevent several existing opposition MPs and two opposition party leaders from standing for re-election.

It threatens to re-open many of the wounds of a society traumatised by nearly 50 years of tyranny and isolation under communist dictator Enver Hoxha.

"This law will solve nothing in regard to genocide," said Mr Arben Imami, general secretary of the Democratic Alliance opposition party, which split from the ruling Democratic party in 1992.

"We are facing a political fight with the ruling party, and we do not think we will be able to have free and fair elections with this law."

The Communist grip on power was broken in Albania later than in the rest of central Europe with the ruling Democratic party's landmark victory in March 1992, when it won more than 62 per cent of the vote.

President Sali Berisha, a former cardiologist and himself once a rank-and-file Communist party member, has come under attack for the increasingly authoritarian nature of his three-year-old administration, however, and the Democratic party leadership appears nervous about its election prospects.

Internal party opinion polls indicate growing support for the Socialist party, the former communists.

The new law, "On genocide and crimes against humanity carried out in Albania during communist rule", is seen by some of President Berisha's opponents as a device to undermine the opposition ahead of the election.

It will have the effect of banning both Mr Skender Gjinushi, the present leader of the Social Democratic party, and Mr Fatos Nano, the jailed leader of the Socialist party, from parliament until the end of 2001, or from at least two general elections.

Mr Nano, a former prime minister, who was imprisoned last year on charges of embezzling Italian aid funds, failed in a recent appeal against his sentence despite disquiet expressed over his conviction in several European countries and in the US.

According to a recent report from Amnesty International, the charges brought against Mr Nano were "politically motivated and had not been substantiated by the evidence produced at the trial hearing."

Details of how the genocide law will be put into practice, including the setting up of a commission to oversee the opening of former secret police files, are due to be disclosed in parliament soon.

Under the framework legislation already approved by parliament, however, several categories of high-level communist officials from the era up to March 1991, the date of the first free elections in Albania, will be barred from election to central or local government, and from being appointed to senior positions in the state administration, the judiciary or the mass media.

The six-year ban will apply to members of the politburo and central committee of the old Communist party, former ministers and members of the People's Assembly, former chairmen of the High Court, district first secretaries, employees of the Sigurimi (the former secret police), as well as secret police collaborators and those who denounced or were accusers in political trials.

The Socialist party maintains that seven of its current MPs will be prevented from standing for re-election.

"This is collective punishment, it is anti-constitutional, we will not have a free election," said Mr Ilir Meta, a vice-chairman of the Socialist party.

"If this law was applied in Hungary Mr Gyula Horn could not be prime minister, and in Poland Mr Alexander Kwasniewski could not be a candidate for president," Mr Meta said.

President Berisha has dis-

> 'This is collective punishment. If this law was applied in Hungary, Gyula Horn could not now be the prime minister'

missed such criticism, arguing that 400,000 Albanians were interned and persecuted under Communism, that thousands were killed and that any revival of old ways would "damage the future of democracy".

Mr Tritan Shehu, secretary general of the Democratic party says: "These people can be businessmen, professors, engineers, they can be active in their parties. But they organised the old system, they organised the secret police. They have made big mistakes.

"During their period terrible crimes were committed. They are not going to prison, but this means it will not be possible for them to speak in the name of the people for the next six years. I think that this law will close this period."

There is concern from organisations such as the Council of Europe, which Albania joined this summer, about the development of democracy and the rule of law in the country.

The council is specifically monitoring how new member countries are honouring their commitments. Alarm bells have already been rung in Strasbourg by the dismissal last month of Mr Zef Brozi, the chairman of the Supreme Court in Albania, who had been involved in an increasingly bitter conflict with President Berisha.

A recent report from the United Nations Development Programme in Albania highlighted "the debatable independence of the judicial system from the political one".

"We are at a critical point," says one diplomatic observer in Tirana, "this is a crucial election. The Democratic party is still struggling to come to terms with the referendum defeat. There is a struggle between the parliament and Berisha and the courts and Berisha. These are still battles about trying to define the roles of institutions in a democratic society."

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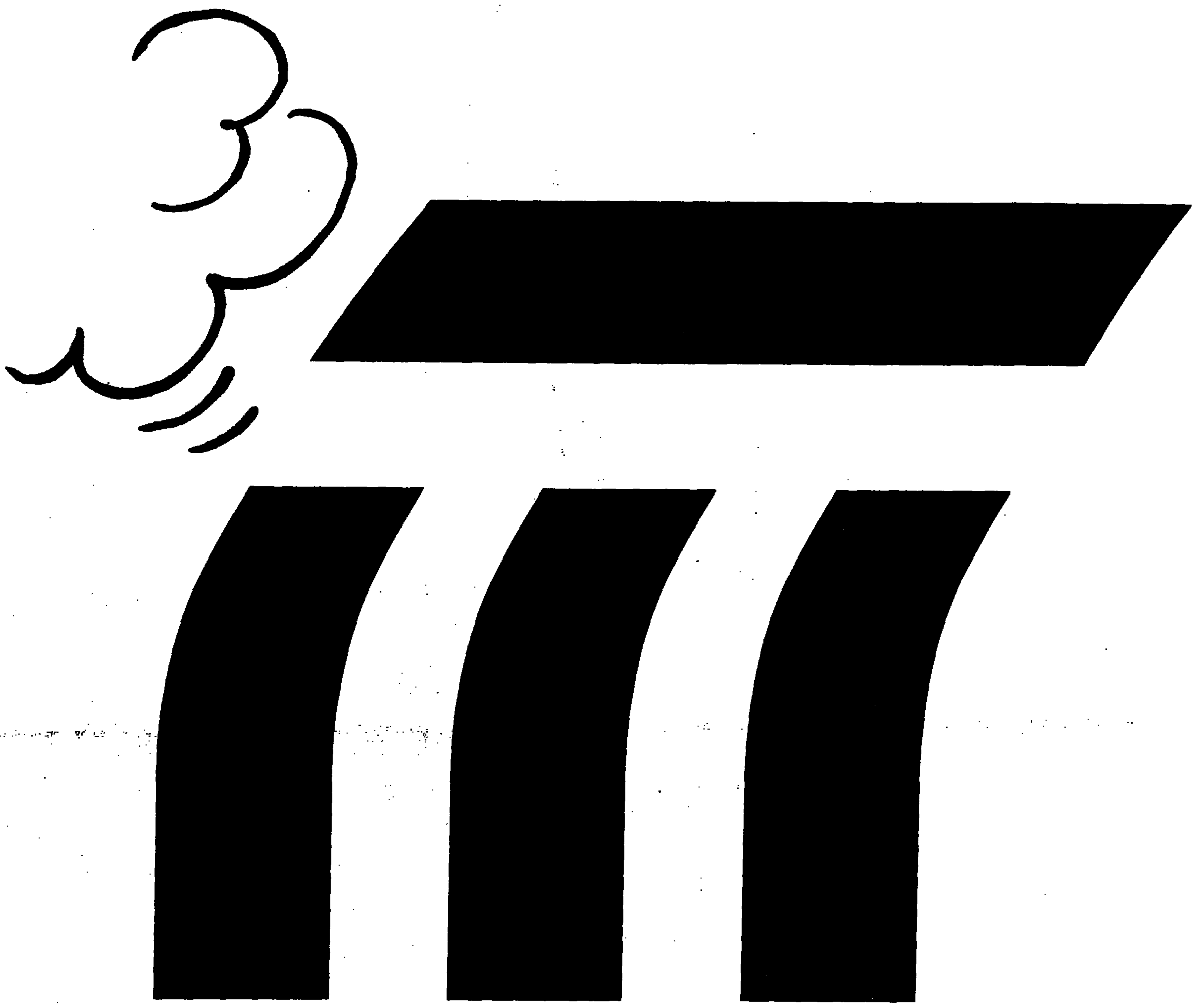

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Clinton goaded on cuts as budget bills loom

By Jurek Martin in Washington

The Republican leadership in Congress yesterday tried to goad the Clinton administration into another round of last-minute budget negotiations, but on terms the White House was unlikely to find acceptable.

This eleventh hour skirmishing came as both houses prepared to vote today and tomorrow on different "reconciliation" bills which combine conventional appropriations with the spending and tax cuts and reforms of social programmes that form the heart of the Republican agenda.

A late afternoon meeting was arranged between Mr Robert Rubin, the Treasury secretary, and Senator William Roth, chairman of the finance committee, to discuss a temporary extension of the federal debt ceiling beyond the middle of next month, or perhaps earlier.

But the conditions laid down for budget talks by Congressman Newt Gingrich, Speaker of the House, and Senator Bob Dole, the majority leader, were stiff. They demanded the administration draw up within 48 hours a budget which accepts the Republican goal of balance in seven years and that it incorporate Republican economic projections rather than its own.

President Bill Clinton told a union convention in New York on Monday night that he would undoubtedly veto the reconciliation bills should they reach his desk. He cited objectionable provisions covering federal health programmes, education, the ending of special tax relief for the working poor and the proposal that would allow corporations to tap their pension funds.

The bills are really a parliamentary device, replete with headline numbers but with many details as yet unfilled. For example, on welfare reform, a component part of the overall bills, a joint House-Senate conference committee is still struggling to resolve big differences between the legislation passed by the two chambers.

The two umbrella bills also contain significant differences, although both would find $450bn in savings on the Medicare and Medicaid health programmes for the elderly and poor, offer $245bn in income tax cuts and balance the budget by 2002.

The House version calls for elimination of the Commerce Department but the Senate's does not. The House would provide a $500 per child tax credit to any family earning up to $200,000 a year, almost double the $110,000 Senate limit.

The House wants to end Medicaid as an "entitlement" for the poor and disabled, but the Senate is less stringent.

The administration is more in sympathy with the relatively moderate Senate approach, particularly on welfare reform. But on some issues, such as the earned income tax credit for the working poor, the Senate is tougher than the House.

There are also common specific provisions in both bills that the administration finds impossible to stomach.

Typical is the proposed opening up of the Arctic National Wildlife Refuge to commercial oil and gas drilling. This has also angered Republican moderates to the point that Mr Gingrich has begun offering them concessions on several environmental fronts in order to preserve his majority.

'Phoney war' turns into shooting match

Jurek Martin finds these early days in the US presidential race a singularly edgy time for all concerned

Political America might have thought it had heard the last of Mrs Arianna Stassinopoulos Huffington a year ago when she found that not even spending $30m could get her congressman husband Michael elected to the Senate from California. That assumption, as those who witnessed London's literary wars of the 1970s could attest, was always unwarranted.

Mrs Huffington is now back in Washington making more than mere social waves in conservative waters. She sits on the board of a foundation set up by Congressman Newt Gingrich, the Speaker, and her new mission appears quite single-minded. In print and on the air, it is nothing less than to prevent the nomination of Senator Bob Dole as the Republican party's presidential candidate.

The Huffington-Dole spat, in which the majority leader has returned fire with aggrieved fire, is but a blip on the political screen. But it is symptomatic of a singularly edgy time in US politics. This may still be a "phoney war", with more than a year to go before the country votes, but it has almost become an outright shooting match, with all the big players taking turns in the gallery.

President Bill Clinton had appeared in ever better shape with foreign and economic policy producing dividends, poll ratings up and no party challenger in sight. But then twice in four days he committed jittery apostasy by suggesting he now thought the 1993 tax increases, part of a hard-won deficit-reduction package, were too steep.

That brought the congressional Democratic party, smaller than it was because of that tax increase, down on his head and elicited scorn beyond count from editorialists, the sting of which was hardly lessened by a subsequent mea culpa. The impression was the old indecisive Clinton wavering again – and on the eve of the budget showdown with Congress on which his future may depend.

Mr Dole has experienced several rough weeks in a row. Though not seriously challenged by any of the other nine declared Republican candidates, polls and pundits alike have begun to write off his chances of unseating Mr Clinton. A flat performance in a candidate forum in New Hampshire earlier this month prompted many Republicans to start thinking of alternatives – specifically Mr Gingrich and retired General Colin Powell.

BIG UNKNOWN: will the popular Colin Powell declare his candidacy? Reuter

Mr Dole added egg to his own face by first obliging the religious right by returning a campaign donation from a Republican homosexual pressure group and then last week saying he had made a mistake. Tied up in Congress, his field organisation in key early voting primary states looked frayed. The endorsement on Monday of Governor Pete Wilson of California may help a bit, but what he needs to generate is enthusiasm, not more big name establishment backers.

Gen Powell, still riding high in the polls and nearing his promised decision day next month, appears to be feeling the heat, with ever more finely tailored comments on the issues of the day such as abortion marking each stage of his book-signing tour. Though well received on the road, he could not escape some blunt criticism for trying to have it both ways, Clintonwise, by not more strongly denouncing Mr Louis Farrakhan, organiser of the black Million Man March last week.

Meanwhile other Republicans, sensing that Mr Farrakhan could be made the bogeyman of the 1996 campaign as Willie Horton, the paroled convict, was in 1988, piled into the Nation of Islam leader, not exactly music to Gen Powell's notion of racial harmony.

His calculations were made no easier by different Republican opinions about whether he could fit, as a black man and a moderate, in a right-wing party. Mr William Kristol, once so close to Mr Gingrich, writes glowing editorials about Mr Powell in his new Weekly Standard magazine, while Mr Ralph Reed of the Christian Coalition is also heard muttering nice things. But the hard right – secular Mr Rush Limbaugh on the radio, religious Mr Gary Bauer and others in their pamphlets and on the Internet - raised the flags of warning that Gen Powell could, if elected, turn conservative revolutionary wine into water.

Mr Gingrich, who says he will not move until Gen Powell does, sometimes seems more tempted to get into the race than ever. Mrs Huffington may well be saying publicly what he thinks privately of Mr Dole, and his own freshman fan club in Congress still loves him dearly. But the Speaker, who faces ethical investigations of his own, also concedes in his frank moments that few politicians inspire such hostility as he does, a burden that might he might happily bear in pursuit of his revolution in Congress but which does not help a national candidacy.

There remains also the persistent feeling that Mr Gingrich's ambitions might best be served by a second Clinton term. A White House occupied by Mr Dole or Gen Powell would leave him only the second most important Republican in town, a clear relegation from his current status. And he, too, knows much depends on the budget showdown.

Mr Ross Perot's independent party is having trouble getting off the ground. It was nip and tuck yesterday that it would be able to beat the midnight deadline and register 89,000 new members to qualify for next year's ballot in California. At the very least Mr Perot's vehicle is looking less and less attractive for anyone contemplating the third party or independent route, as some columnists, like Mr Anthony Lewis of the New York Times, still urge Gen Powell to take.

Still hopeful, but hoping more for a miracle than anything else, are the nine other Republican candidates, now commonly compared to the "seven dwarves" of the 1988 Democratic campaign. Senator Phil Gramm of Texas continues to display a tin ear for politics (for example, trying to persuade Arizona to hold the first primary has gone down like a lead balloon in New Hampshire) and now his money is drying up.

Mr Steve Forbes, the magazine publisher, is buying recognition with his money and his war of words on Mr Dole, but not to the point that anybody is yet taking him very seriously. Mr Pat Buchanan is taken seriously not as a likely nominee but by those who dislike his America First arguments, which do resonate. Former Tennessee governor Mr Lamar Alexander plugs away.

This odd, edgy period, in which Mr Clinton's principal political adviser is a Republican, Mr Dick Morris, is suited to natural activists, of which Mrs Huffington is clearly one. At least there is no evidence yet that she has been advising Gen Powell.

Some 500 court cases are still pending over Chile's 'disappeared'

Former secret police chief jailed at last

By Imogen Mark in Santiago

"Seeing is believing," said Mrs Sol Sierra, one of Chile's leading human rights campaigners. But she, and a good many other ordinary Chileans can still hardly believe that retired General Manuel Contreras, once head of Chile's infamous Dina secret police force, is finally behind bars.

The scepticism is understandable. It has taken almost five months of public wrangling in the courts over the general's state of health, and behind-the-scenes pressure on the army to get it to persuade Gen Contreras to comply with his sentence.

Gen Contreras was sentenced last year to seven years' jail for his part in the murder of Mr Orlando Letelier, the former Chilean Socialist leader and government minister killed by a car bomb in Washington in 1976.

Gen Contreras's former number two, Col Pedro Espinosa, was sentenced to six years for his role in the crime.

Public opinion polls over the months consistently found that the majority of Chileans did not believe Gen Contreras would ever go to prison.

In his four years at the head of the secret police from 1973 to 1977 he was right-hand man to the then-dictator Gen Augusto Pinochet, and undoubtedly the most feared man in Chile.

The sentence was confirmed by the Supreme Court at the end of May, and Col Espinosa was handed over in early June. But Gen Contreras was promptly whisked off by the army to a naval hospital.

He was operated on there for a hernia, and encouraged to appeal against the place of detention, on the grounds of ill-health.

The hope was that he might be allowed to serve his sentence in a military hospital, and avoid the humiliation of being sent to jail.

But by last week all his appeals had been rejected. In the early hours of Saturday morning the former police chief was taken under army escort to Punta Peuco, a purpose-built jail just outside Santiago.

En route, however, he was fêted and toasted by fellow officers, including two generals, in a military base outside Santiago. A detachment of paratroopers from a crack Santiago regiment have been assigned to guard him, with the prison service taking only secondary responsibility.

The government has deliberately played down the final outcome, in order not to irritate army sentiments. But Senator Sergio Bitar, the leader of the Party for Democracy, part of the governing coalition, said: "It is the first time in Latin American history that a secret police chief has ended up in jail. That is a political judgment on the regime which he served."

Mr Bitar and other political leaders have welcomed the general's imprisonment as a vindication of the rule of law. But Mr Bitar also said "getting Contreras into jail is a symbol of all that we cannot do".

'The jailing of Contreras is a political judgment on the regime which he served'

The judge was able to collect the evidence to prove Gen Contreras's guilt only with substantial help from the US courts, which investigated the killing at the time, Mr Bitar pointed out. It was pressure from Washington which forced the Chilean regime to except the Letelier murder from an amnesty decree which covered all other political crimes committed by the Dina from 1973 to 1978.

In the Chilean courts there are still some 500 cases pending over the disappearance in military detention of about 1,000 political prisoners who were detained during this period.

These cases are covered by the amnesty law, and although the government and some judges argue that the courts have an obligation to investigate the circumstances of the disappearances before closing each case, many judges feel they can do little to shed new light on the presumed deaths.

"Morally, these cases cannot be seen as solved. But judicially, I think that within a couple of years most of them will have been closed," said Mr Alfonso Insunza, a human rights lawyer.

Cardoso closer to deal on firing civil servants

By Angus Foster in São Paulo

A vital ingredient of President Fernando Henrique Cardoso's civil service reforms was approved yesterday, but only after the government had been forced to water down some important measures.

The changes, accepted by a Brazilian congressional committee, will break the constitutional prohibition against sacking civil servants, but only under certain conditions, some of which remain under discussion.

For example, only those states and municipalities whose wage bill already consumes more than 60 per cent of tax revenues will be allowed to fire workers, and only until their spending on personnel falls to the 60 per cent limit.

President Cardoso had wanted greater flexibility for the federal and state governments to cut their workforces. The federal government forecasts its payroll costs will rise to R$41bn ($42.7bn) next year, more than double the 1993 total. Some state governments see more than 90 per cent of their tax revenues spent on wages, leaving no money for investments.

It is unclear if the watered-down proposals will be sufficient to tackle these problems, which continue to threaten the government's budget. Congress is also insisting that young and apprentice civil servants be the first to lose their jobs, even though their low salaries are less of a burden.

The strongest opposition to the original proposals came from northern Brazil, where the government is the biggest employer and politicians often hand out civil service positions as patronage.

The reforms are also unpopular because job cuts are likely to begin next year, during campaigning for municipal elections.

Other commitments which the government agreed with political leaders to accept include a ruling that civil servants can be sacked only until the end of 1998, when the mandate of President Cardoso and the state governors comes to an end. Congress was worried that a new set of governors would sack the appointees of their predecessors.

Fears of such political abuse of the civil service lie behind the constitutional ban on firing government employees once they have worked for two years.

This ban, and extremely generous pension payments, are the main reasons for the increase in the federal and state governments' wage bill.

Yesterday's committee vote had already been delayed several times because of disagreements within the government's coalition partners.

The proposals still need approval from the full houses of Congress, where opposition is also expected to be virulent.

Mexican authorities hold 'founder' of Zapatistas

By Daniel Dombey in Mexico City

Mexico's authorities said yesterday that police had arrested the alleged founder of the Zapatista rebel movement, Mr Fernando Yañez, a grizzled veteran of over two decades of guerrilla movements.

Mr Yañez was detained on Saturday evening on charges of illegal possession of firearms. The capture of Mr Yañez, who says he is only a Zapatista sympathiser and claims he has been tortured, appears to represent a further weakening of the position of the once-influential rebel movement, although it may also upset the interminable peace negotiations that are proceeding in the southeastern state of Chiapas.

Never a significant military force, the Zapatistas have lost much of the popular support they won in the weeks following their brief and unexpected occupation of four towns in Chiapas on January 1 1994.

Mr Yañez, code named Germân, was among one of a handful of middle class whites identified by President Ernesto Zedillo in February this year as leaders of the mostly indigenous movement.

What if any status Mr Yañez currently has among the Zapatistas is unclear, although the author of a book on the movement, Mr Carlos Tello, says that Mr Yañez was in command during the early 1990s. Subcomandante Marcos, a more widely known rebel leader, may have wrested control from Mr Yañez since the beginning of the rebellion.

While Mr Yañez's arrest is likely to raise tensions in talks between the rebels and a government delegation, the Zapatistas appear to lack the military force to consider resuming hostilities. Announcement of the arrest was delayed until after the adjournment on Monday of the latest, seemingly successful round of talks.

At the end of the talks, which participants said were marked by a lighter mood than in the past, both sides agreed that indigenous people needed greater autonomy and political power as part of any settlement.

Mr Yañez's detention might also prove a matter of contention in widely advertised talks between the main political parties on democratic reform. Opposition party figures yesterday doubted the wisdom of the move, though the Zapatistas have recently underlined their differences with the leftist Party of the Democratic Revolution, their most obvious natural ally on the national political stage.

Mr Yañez's spell in prison might be brief, because it is unclear how the charges levelled against him square with an amnesty law passed in April. Other alleged Zapatista leaders were released earlier this year due to lack of evidence.

Fresh tensions in Nasdaq inquiry

By Maggie Urry in New York

The US Department of Justice has raised fresh tensions in the Nasdaq stock market by asking a federal court to order the National Association of Securities Dealers (NASD) to hand over documents it asked for in January.

The department is carrying out an investigation into Nasdaq, the automated quotations market owned by the NASD. Nasdaq market makers have been accused of anti-competitive practices, which include possible collusion and refusal by dealers to trade at prices already quoted on computer screens. The Justice Department investigation began a year ago.

The NASD said it had co-operated with the authorities "both informally and formally" by producing "thousands of pages of documents" and meeting officials to answer questions.

However, the decision to seek a court order indicates frustration on the part of the authorities. According to the court filing, the information the Justice Department first requested over nine months ago relates to the way market makers compete with each other and to "possible collusion" between them.

The department served a civil investigative demand on the NASD, equivalent to a subpoena, in January, asking for the information by mid-February. The NASD, the filing said, had told the Justice Department it would take six to 10 weeks to produce the information, but by this week had still not done so, in spite of repeated requests.

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ASIA-PACIFIC NEWS DIGEST

South Koreans seize infiltrator

South Korean soldiers yesterday captured a North Korean infiltrator and were hunting for another intruder in the second such incident in a week. The two North Koreans engaged in a gunfight with South Korean military and police forces after being spotted in a remote mountain region near Puyo, South Chungchong province, on the country's west coast. One policeman was killed and two others wounded.

The captured 33-year-old North Korean claimed he entered South Korea in August, but refused to provide further information about his mission. More than 22,000 soldiers were mobilised to search for the second infiltrator last night. The incident follows the fatal shooting last week of a North Korean frogman as he tried to sneak across the demilitarised zone, which separates the two Koreas, on an apparent reconnaissance mission. The latest North Korean intrusions into South Korea are highly unusual. Though many North Korean infiltration attempts were made in the 1960s and 1970s, only one incident was reported in 1992. *John Burton, Seoul*

Japan in move over US bases

The Japanese government yesterday moved a step nearer resolving the controversy over US military bases, which has aroused anxiety among Japan's Asian neighbours over regional security. An emergency meeting of the three-party coalition agreed Prime Minister Tomiichi Murayama should shortly meet Mr Masahide Ota, governor of Okinawa, in an attempt to persuade him to sign lease renewals for US facilities there.

Mr Ota has refused to oblige residents to renew such leases, in protest against last month's alleged rape of a schoolgirl by three US servicemen in Okinawa, where three-quarters of US facilities in Japan are based. The incident has provoked calls from residents around US bases in Japan for cuts in troop numbers, and in some cases, full withdrawal. Mr Yohei Kono, Japan's foreign minister, yesterday reassured Mr Walter Mondale, US ambassador to Japan, that the Tokyo's allegiance to their security pact was unshaken. They agreed to discuss cuts in US bases in Okinawa. Mr William Perry, US defence secretary, is to visit Tokyo next week to discuss the future for US bases. *William Dawkins, Tokyo*

Java train crash leaves 17 dead

Up to 17 people were killed and 100 injured in Indonesia yesterday when an overnight passenger train left the rails in an area of ravines and volcanic mountains. Reports from the the derailment were confused, and police in Tasikmalaya, west Java, 25km from the scene, said search operations had been hampered by rain. Some officials said eight carriages and two locomotives had fallen into a ravine in darkness. Others said three coaches and two locomotives had tumbled about two metres down a slope only seconds after passing a bridge over a river. The number of people aboard the train was put variously at 300-400. Rescue teams with helicopters were still searching the wreckage for bodies last night. *Reuter, Jakarta*

Quake hits Chinese province

A strong earthquake hit China's rural, densely-populated Yunnan province yesterday, killing at least 29 people, injuring 100 and leaving many farmers homeless, officials said. The early-morning tremor, measuring 6.5 on the Richter scale, struck during a torrential rainstorm, making rescue and relief work difficult in the rugged mountain province bordering Burma. *Reuter, Beijing*

Japan bank chief tries to calm loan fears

By Gerard Baker in Tokyo

Mr Yasuo Matsushita, governor of the Bank of Japan, yesterday tried to play down international fears about the stability of Japan's financial system. He said the banking system as a whole was not threatened by the problems of weak balance sheets which were causing alarm in the world's money markets.

"The bad loan issue at Japan's financial institutions is serious, but the core of the system is intact," he told a conference in Tokyo marking the tenth anniversary of the signing of the Plaza Accord on currency stabilisation.

He argued that there was a strong possibility Japan's leading banks would be able to write off all their non-performing loans within a few years. Most banks had strong capital bases and were improving their profitability, factors that would help them dispose of the problems quickly.

International concerns about Japan's problems have been heightened by a succession of financial disasters. Three institutions collapsed during the summer under a pile of bad loans; last month, Daiwa Bank, one of the country's largest lenders, revealed losses of $1.1bn (£700m) in US bond trading at its branch in New York.

The concerns have been highlighted by an increase in overseas funding costs for Japanese banks. The restriction of credit to some institutions in the past month has forced the US Federal Reserve to agree emergency standby arrangements to help Japanese banks that might face liquidity problems in US dollar markets.

Mr Matsushita said the financial problems were containable, but added three policy measures were needed for a speedy resolution.

First, restructuring efforts by individual institutions would improve their capital adequacy, damaged in the past few years by loan write-offs and weak asset prices.

Second, burden-sharing among all financial institutions was necessary to ease the problems among weaker companies. That would require an increase in the premium paid by all banks to the Deposit Insurance Corporation, a fund which protects depositors against a bank failure.

Ultimately, public funds might be needed in the disposal of bad loans, Mr Matsushita added. "It may become necessary to seek the shouldering of costs by the people."

Moody's Investors Services yesterday explained why it had kept Japanese banks' credit ratings at investment grade, despite their mounting problems. It said the leading commercial banks were protected by the authorities from failure, and they could not let any large bank collapse. At present, both the finance ministry and the central bank "stand ready, willing and able to back up [the banks] with whatever resource is required".

Moody's clarification followed its decision last week to downgrade the ratings of three of the troubled banks to the lowest investment grade. Its move surprised some institutional investors which had expected the three, Nippon Credit Bank, Hokkaido Takushoku Bank and Chuo Trust and Banking Corporation, to have their long-term ratings reduced further.

The "Japan premium", the extra cost of funding for Japanese banks, rose as high as a full percentage point in international money markets yesterday, Reuter reports from Tokyo.

Bankers said a few Japanese banks with below-average credit ratings raised funds at 1 percentage point above normal interbank rates. The premium compares with 0.43 percentage points last Thursday.

Banks with slightly better ratings were able to raise funds at 0.62 percentage points over prevailing interest rates. The widening premium, which hit some trust banks hardest, was due to nervousness about the recent downgrading of Japanese banks and to more news about Daiwa Bank's trading losses.

Some bankers said overseas banks were asking for yet another premium on funds to Japanese banks which had exhausted set credit lines and were seeking new loans.

Sharp exports fall cancels car industry rebound

By William Dawkins in Tokyo

A sharp fall in exports ensured that recovery for Japan's car industry proved to be a false dawn in the first half of this fiscal year, according to an industry report yesterday.

Output of cars, trucks and buses fell 3.6 per cent in the six months to September, against the same period the previous year, the Japan Automobile Manufacturers' Association said. This wiped out the improvement recorded in the previous six months, to the end of March.

Japanese car production has been slowing for four-and-a-half years, the longest period of decline recorded, though several car industry executives believe domestic demand is picking up.

The main reason for the poor performance was a 16 per cent fall in exports, about a third of total production, reflecting the increased value of the yen, as well as weaker US and European demand. Domestic sales, by contrast, rose 2.6 per cent, recovering from a four-year decline, a sign that the weakness of Japanese consumer spending might be past the worst.

Vehicle production declined 10.9 per cent in September alone, though domestic sales still rose 2 per cent.

That gentle increase in domestic car sales was one factor in a slight improvement in general economic conditions in August, as measured by the government Economic Planning Agency's diffusion index, a basket of 13 indicators. The leading indicator, pointing to conditions a few months ahead, rose to 30, from 18.3 in July.

But August was the fourth month in a row in which the leading index has languished below 50, the dividing line between growth and decline.

Separately, an EPA quarterly report showed the first improvement in consumer confidence for nine months. But again, the rise was slight, to 41.1 per cent last month on the EPA's consumer confidence index, up 0.3 per cent from the previous survey in June.

Within this, a mere 1.8 per cent of households bought cars or furniture during the past three months, up 0.3 percentage points from the previous quarter.

China raises more in tax but avoidance still rife

By Tony Walker in Beijing

China's tax revenues increased by about 30 per cent in the first nine months of the year compared with the same period last year, but tax avoidance remains a big headache for the authorities.

Mr Xiang Huaicheng, vice-director of the State Administration of Taxation, said China had made a successful transition to a new tax regime, including a value-added tax, introduced at the beginning of 1994, but large numbers of enterprises and individuals continued to resist paying tax.

He estimated that the tax administration should be collecting about Yn25bn (£1.9bn) from individual taxpayers this year, but the figure would be about Yn12bn, an increase of about 80 per cent cent over last year.

By the end of September, some 14.1m Chinese enterprises had paid Yn374.1bn in industrial and commercial taxes, an increase of 29.1 per cent over same period in 1994.

Value-added and consumption tax revenues, which account for about 60 per cent of the total, rose by about 25 per cent.

China is tightening rules on VAT rebates on exported goods which soared in the first half of this year. On July 1 the rebate was cut to 14 per cent from 17 per cent. More action on abuses is planned in 1996.

Mr Xiang said computerisation was helping to improve tax collection. The tax administration had linked its offices in 50 large cities by computer and planned to expand its computer network to include 370 cities by 1997. This would enable the tax administration to keep a closer watch on enterprises and individuals responsible for 70 per cent of tax revenues.

State-owned enterprises, numbering about 2m, account for about 64 per cent of tax revenues. Collectively-owned, private and household enterprises account for the bulk of the rest.

■ The Sino-British Joint Liaison Group preparing for Hong Kong's transfer to Chinese rule will meet in Beijing between October 31 and November 2, Reuter reports from Hong Kong. It is expected to flesh out an accord reached in London earlier this month by Mr Qian Qichen, China's foreign minister, and Mr Malcolm Rifkind, his UK counterpart, during a visit which marked a thaw in Sino-British relations.

Sri Lankan troops with a boy rescued in jungle in the north-east. He had hidden to escape a massacre by Tamil Tigers *Reuter*

Battle rages near Jaffna

Sri Lankan troops preparing for a push against the Tamil-held north fought a battle against rebels protecting the approaches to Jaffna city, the military said yesterday, Reuter reports from Colombo.

Eighteen soldiers and an estimated 30 rebels died in the battle early on Monday, before the troops repulsed the attack by the Liberation Tigers of Tamil Eelam (LTTE), the military said.

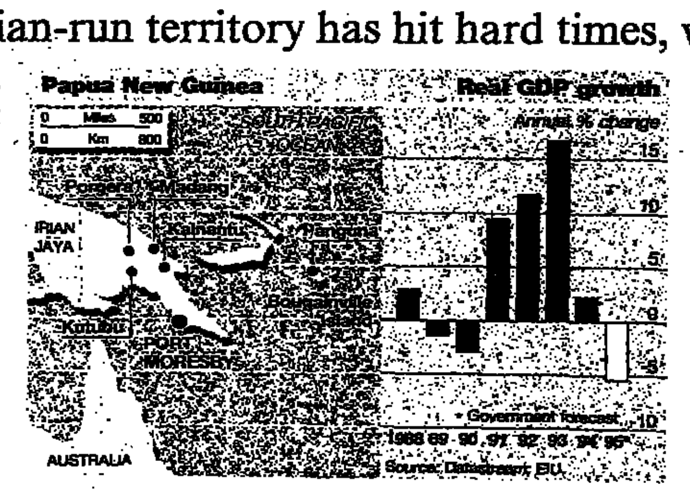
As troops have pressed the rebels in the north, the Tigers have attacked civilians.

Jaffna was now almost almost within reach of the advancing army that, according to diplomats, was massing for an assault following an offensive launched on October 17 to recapture rebel territory in the north.

An assault on the city would mark the decisive phase in a war in which the government says more than 50,000 people have been killed since it began in 1983. The diplomats said the struggle for densely populated Jaffna could result in heavy loss of life on both sides, as well as among the civilian population.

Resource-rich PNG has to 'beg'

Former Australian-run territory has hit hard times, writes Nikki Tait



Fireworks and balloons filled the skies over Port Moresby, Papua New Guinea's capital, as the country commemorated the 20th anniversary of its independence last month. Down on the ground, many Papua New Guineans were in reflective, rather than festive, mood.

Though proud of two decades of democracy, their resource-rich country is in an economic mess. Some have even questioned whether Australia was over-hasty in dropping the colonial reins.

"For a country blessed with natural resources to be begging is a sin," says Sir Michael Somare, PNG's first prime minister and elder statesman. "The people who are responsible for creating this mess owe an apology to PNG and its inhabitants. This is not the same country that was worth fighting for."

The cause of this disquiet is largely economic, coupled with escalating problems of law and order. Already, straitened circumstances have strained relations with Australia, which has pumped about A$10bn (US$7.5bn) into the country's economy since independence and still contributes about A$300m in annual aid.

In August, PNG was forced into the arms of the World Bank. In return for loan funds, the country's leaders have agreed to implement a stringent restructuring programme, which promises to shrink the public sector, widen the tax base and prune import tariffs.

The economic problems go back to 1988, when secessionist rebels and angry landowners forced the Panguna copper and gold mine, on Bougainville Island, to shut down. Panguna, one of the country's first big mining projects and operated by Australian mining group CRA, accounted for 10 per cent of gross domestic product and 30 per cent of exports. As a result, GDP shrank in 1989 and 1990.

Then, in 1992 and 1993, as revenues from the Kutubu petroleum and Porgera gold mining projects peaked and the government adopted reflationary measures, growth recovered to double-digit figures. But public expenditure drifted out of control, with the budget deficit reaching 6 per cent of GDP and the current account deficit more than 10 per cent.

Austerity became imperative, and even before the World Bank intervened, growth had shrunk to negligible levels in 1994. Government forecasts are for a 5.4 per cent decline in GDP this year.

According to the Asian Development Bank, annual per capita income of PNG's 4m population is US$750. Not only is this one of the lowest figures in the South Pacific region, it is less than what it was 15 years ago.

Meanwhile, unemployment in urban centres is high and rising. In the towns lawlessness is on the increase.

It is not surprising that there have been attempts to apportion blame, and politicians have been accorded much of it. For many observers, the political shortcomings are epitomised by the Electoral Development Fund, which makes direct allocations – recently increased to K500,000 (US$378,000) – to members of parliament to spend in their constituencies.

In theory, this is a means of getting funds out to the population at large. But to many, the system amounts to blatant favours-for-support politics and is thought to be rife with misuse.

One result of these problems has been pressure on the relationship with Australia, still the dominant trade and investment partner. Canberra has fretted over the apparent inefficient use of its aid funds, and – after years of warning – is moving from a system of "untied" aid to the funding of specific projects.

This has dismayed PNG's leaders, and there have been open accusations of paternalism.

Meanwhile, government finances became so parlous late last year that there was no money to pay bills. Eventually, the country turned to the International Monetary Fund which agreed a $110.4m standby facility in July.

This was made conditional on a freeze on public service wages, a budget deficit of less than 1 per cent of GDP, and a long-term structural reform programme with the World Bank. The latter was finally signed in late August.

If adhered to, it could release funds of more than $230m over the next two years (partly supplied by Australia, Japan's Export-Import Bank and the Asian Development Bank). More recently, additional sums to finance specific infrastructure and social investment projects have been approved, potentially doubling the total rescue package.

But the cost is onerous: a cut of 4,300 public sector employees, trade and price liberalisation, introduction of a general sales tax, changes to the forestry policy to control excessive logging by foreign-owned interests and the eventual privatisation of some government enterprises.

Already, non-governmental organisations are warning of the social costs, although a quick trip to Canberra by Mr James Wolfensohn, president of the World Bank, left Australia's National Council for Overseas Aid, an umbrella organisation, partly reassured that there was a commitment to infrastructure and social programmes. He also said the bank was willing to allow monitoring of the programme's implementation.

Some observers have a more cynical view: they suspect that the PNG government will be eager to draw down loan funds, but slower to swallow the accompanying medicine. Already, in the context of the South Pacific Forum, PNG has said it will be unable to implement a forestry "code of conduct" immediately.

"By no means are we in an unsalvageable postion," Sir Julius Chan, PNG's prime minister, told his countrymen at the independence celebrations. Some Papua New Guineans, he noted, had moved from a tribal existance to "modern" lifestyles in less than a generation. Disruption was inevitable.

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UN divided over how to reform itself

By Michael Littlejohns at the UN in New York

The United Nations must reform and modernise itself if it is to meet tomorrow's challenges and justify the hopes of mankind. member states agreed as a special summit session commemorating its 50th anniversary neared adjournment last night.

But the declaration, climaxing the three-day event, papered over continuing disputes among the 185 members on how to achieve that aim.

They agreed that the Security Council should be expanded and strengthened, but the seven-page document – prepared in intensive discussions among ambassadors prior to the gathering of the largest group of heads of state in history – acknowledged "important differences on key issues".

There was need for "further in-depth consideration". A major issue is whether Germany and Japan should gain permanent seats without stronger representation from Africa, Asia and Latin America, or whether there should be new permanent members at all.

Third world concerns over the 15-member council's dominance of the UN and the consequent diminished influence of the General Assembly were reflected in a demand for the revitalisation of that "universal organ".

The UN's financial crisis – member states owe more than $3bn for the regular budget and peacekeeping – was addressed in a reaffirmation that "member states must meet, in full and on time, their obligation to bear the expenses of the organisation".

However, the declaration went some way towards meeting Washington's demands for a smaller assessment, raising the possibility of new criteria that could reduce the current 30 per cent US apportionment.

Responding to widespread criticism that the UN system's secretariats are bloated and unproductive, the declaration called for a significant improvement in efficiency and management of resources.

A reference to the right of self-determination "of all peoples" caused problems among the drafting groups because of territorial disputes in the Middle East and the Indian sub-continent. They were resolved only late on Saturday, with the final documents reaffirming that right "taking into account the particular situation of peoples under colonial or other forms of alien domination or foreign occupation."

A duty to meddle, Page 18

Defiant Kenya is running out of steam

Failing energy sector reveals the cost of donor neglect, writes Michela Wrong

As Kenya prepares to meet its donors at a meeting in Paris next month, President Daniel Arap Moi is in bellicose mood. He has refused to co-operate with an international tribunal on Rwanda, threatened to charge members of a new opposition party with sedition and railed constantly against foreign interference. The message to exasperated donor countries, looking for signs the political and economic reform process is back on track, seems increasingly to be: Kenya is ready, if necessary, to go it alone.

But while Nairobi flirts with defiance, the condition of one of the country's key sectors illustrates the dangers it courts. An object of donor indifference for years, Kenya's energy sector shows just what damage foreign neglect can do. In terms of lost income, stalled investment and falling living standards, the country is already paying a high price for past sins.

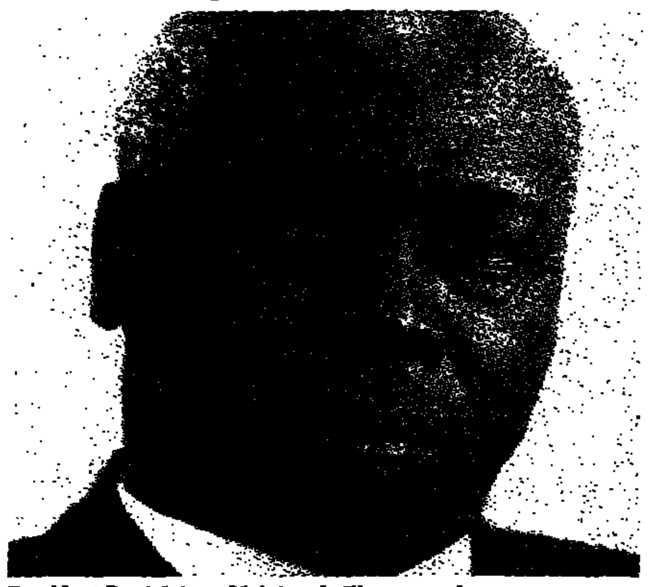
Once-rare power cuts have become a regular feature of Kenyan life. On the coast, hotel managers complain of thrice-weekly cuts that halt air conditioners and water pumps and surges that damage computers and refrigerator equipment. Signs in hotel lobbies beg tourists, one of Kenya's chief sources of foreign exchange, to show forbearance.

In the interior, tea plantation owners worry that picked leaves will rot because they cannot immediately be dried. Factories time their machinery to avoid running at peak hours. At Bamburi cement works, the biggest electricity consumer in the country, 163 interruptions in supply over the past nine months have cost 35,000 tonnes in lost production. The East Africa Association, which represents 160 foreign companies investing in Kenya, advises members to buy generators.

The fact, claimed industry experts earlier this year, is that the ageing and poorly-maintained network run by the government-owned Kenya Power and Lighting Company (KPLC) is no longer capable of meeting national demand. After at first denying the reports, Mr Darius Mbela, the energy minister, last month came clean, admitting peak demand, running at around 630MW, now outstripped capacity by 44MW. Blaming the donors, he warned the shortfall could rise to nearly three times as much in a drought. The industry experts, for their part, predict that shortfalls could reach 30 per cent of national demand during a serious drought, which hits output from hydro-electric stations.

Donor allergy towards this crucial industry dates back to 1986, when Kenya's energy minister of the day, Mr Nicholas Biwott, negotiated a deal with French contractors to build a massive hydro-electric dam in Kenya's Turkwel Gorge. First, the contract for the now infamous dam, described by the opposition as "the whitest of white elephants" was awarded without competitive tender. Then, according to a European Community report, the project ended up costing many times its original, already-inflated price as a result of kickbacks paid to government officials.

"Turkwel Gorge was such a slap in the face to the donor community," said one donor representative. "The strategems used were so outrageous it made everyone sick to the stomach. This was one sector where we drew the line and said 'no more'."



President Daniel Arap Moi: in a bellicose mood

There have been no donor-funded power projects for the last five years, which has put the burden for modernising this capital-intensive sector fully on a government which is having to promise the IMF it will eliminate its budget deficit. The result: no new facilities have come on stream since 1992.

Recently there have been signs that some donors may be willing to return to the sector as long as KPLC pushes through promised liberalisation and privatisation plans. The Japanese government is funding a 75MW diesel plant near Mombasa, the first in a six-step $1.1bn investment programme the government wants completed by the year 2000. But when the Kenyans appealed for further outside investment at a Paris conference in September, the response was "disappointing", World Bank officials acknowledge, with pledges falling $300m short of requirements.

The next couple of years look bleak. KPLC is promising to eliminate its current shortfall by the end of the year by repairing damaged equipment. But the resulting small margin of capacity over demand leaves little leeway for breakdowns, drought or shutting down installations for maintenance.

As for the $1.1bn investment plan, even if the necessary funds materialise, the first of the new plants would only start producing in 1998. And the programme is based on assumptions that demand will grow 4 to 5 per cent a year, a projection many analysts regard as an underestimate.

A cement factory executive confesses to being "extremely worried" about the next two to three years when his industry is planning to expand. "This is our biggest prospective nightmare. If the donors don't come back we're heading for serious trouble."

Potential investors will also take into account the country's crumbling road network and increasingly unreliable telephone system when deciding whether to venture into Kenya.

"Power is absolutely critical," says Mr Charles Gardner of the East Africa Association. "A businessman can afford to be hard-headed about political developments, but when it comes to power supply problems he has to take them seriously. This issue is one of the major brakes on investment in Kenya at the moment."

Peres warns on peace dividend

By Julian Ozanne in Jerusalem

Unless Arabs states opened their economies, adapted to the new rules of market-based global economics and changed their attitude to doing business with Israel they would miss out on the opportunities of an unfolding Middle East peace, Mr Shimon Peres, Israeli foreign minister, said yesterday.

In an interview in the run-up to this Sunday's Middle East and North African economic summit in Jordan, Mr Peres said Arab fears of future Israeli economic domination were "one of the greatest nonsenses" in his life.

"Unless the Arab world departs from the old-fashioned thinking they will pay the price, not us," he said. "It is the story of old prejudices and suspicions totally unfounded on reality."

Israel, he said, was an $80bn economy, increasingly based on high-tech enterprises and looking towards the markets of Europe, the US and Asia, not towards the Arab states. "There is nothing like an Arab economy, there is Arab poverty. Who wants to dominate poverty? . . The only domination today is by competition."

Israelis genuinely wanted to see economic growth in the Arab world "because lower standards of living feed Islamic fundamentalism and violence". Arab nations needed to look more at what was happening in Asia and Latin America and adopt economic policies to fuel investment and trade.

Policies that needed to be implemented quickly included economic and trade liberalisation, privatisation, equal rights for women and a diversion of government expenditure from the military to education.

"There are so many opportunities in the world today that nobody knocks on the door of the Middle East.

"If the Middle East will not understand this, it will be left out and looked over," Mr Peres said.

Countries like Egypt had to realise quickly that "it is not Israel that is competing with them – it is another age which is competing with them and nobody can stop it".

Israel did not introduce a new economic order. Israel was simply saying: "Gentlemen, look around, there are new bells ringing all over the world. Look how fast Asia and Latin America are developing. You cannot remain dormant. You cannot win a race if you fall asleep."

The foreign minister said Israel wanted Lebanon and Syria to join moves towards regional integration and the development of a Benelux-type arrangement between Israel, Jordan and the Palestinians but that the region could not afford to wait for Syria to make peace with Israel.

Institutions like the Arab League, which had isolated the Jewish state, needed to be scrapped and replaced with new institutions like the proposed Middle East development bank, which would reflect the new political-economic reality, he added.

INTERNATIONAL NEWS DIGEST

US may transfer embassy in Israel

The US Senate voted overwhelmingly yesterday to require the US embassy in Israel to be transferred to Jerusalem from Tel Aviv by May 1999. But, reflecting concern about possible interference in Middle East peace negotiations, the legislation gives US president Bill Clinton the authority to suspend the move for six-month periods "to protect the national security interests of the US". The provision was included to avoid division following a veto threat from Mr Clinton. The issue is expected to be voted on soon by the House of Representatives. *Reuter, Washington*

UN aid for Palestinians

The UN said yesterday it was sending survival goods for 1,036 Palestinians trapped in a desert no-man's-land between Egypt and Libya, where conditions were worsening. The deportees are among 30,000 Palestinians expelled by Libyan leader Muammer Gadaffi who ordered them to leave for Palestinian self-ruled areas ostensibly to expose the shortcomings of what he calls the sham peace between Israel and the Palestine Liberation Organisation. *Reuter, Geneva*

Zanzibar recount demanded

Zanzibar's first multi-party elections, declared fair by foreign observers, were in chaos yesterday after the opposition alleged wholesale rigging by the ruling party and threatened civil disobedience. Two days after Sunday's vote and with Zanzibaris still waiting to hear the result, the Civic United Front demanded a complete recount of votes for the islands' presidency. The demand came within hours of street incidents between riot police and stone-throwing opposition supporters. *Reuter, Zanzibar*

Polish car workers opt for Daewoo rather than GM

By Christopher Bobinski in Warsaw

Daewoo's bid to buy the state-owned FSO car factory in Poland in the face of intense competition from General Motors of the US yesterday won the support of the plant's influential workers' council.

The council, which has a statutory duty to approve decisions affecting the factory's future, voted to back management and government efforts to conclude a deal with the South Korean conglomerate.

Its decision came as Mr Kim Woo-Choong, Daewoo's chief executive, arrived in Warsaw for what the government and the South Korean company hope will be the final phase of talks on what would be a $1.1bn investment project involving the manufacture of 220,000 cars a year at FSO within six years.

These are the figures contained in a memorandum of understanding signed last August between Daewoo and the government under which the Korean company would take a 60 per cent share in the joint venture.

If Daewoo is successful, it would almost certainly force GM to withdraw from FSO, where Opel, its German subsidiary, has a modest car assembly line which it had planned to develop.

FSO's workers' council, which represents the factory's 20,000 employees, gave its approval on condition that government negotiators strike a deal in line with the terms outlined in the memorandum. The unions and Daewoo have also agreed an employment and wages pact.

According to the unions, it would include full employment guarantees and employee share participation for up to 30 per cent of the equity of the proposed joint venture. Failure to meet these conditions, the council says, could provoke the withdrawal of its support and jeopardise the deal.

Mr Tadeusz Soroka, a deputy industry minister and head of the Polish negotiating team, said after the council meeting he was pleased a result had been achieved which would enable the talks to progress.

He told the meeting that the price of FSO's assets was still being negotiated but that Daewoo had agreed to commit $440m to the joint venture as part of the overall $1.1bn investment programme. This assumed that production of the Polonez car, FSO's current product, would be maintained until 1999 while production of a new passenger model – in the form of full assembly from kits – would start in 1998.

GM, meanwhile, has told the government that it is considering building a factory on a greenfield site producing 100,000 low cost cars in an investment worth DM400m ($272m) to come on stream in 1998.

Egypt enters the age of the foreign car

Ford launches into competition, reports **James Whittington**

The heavily protected Egyptian car market is being given a dose of competition. Yesterday, the local dealer of Skoda unveiled the new 1996 Combi models to add to its range of small cars. And tomorrow, executives from Ford are due to launch their entire range of US and European models to the increasingly car-hungry Egyptian consumer.

Since the last main government control of the motor trade was lifted in December 1993, there has been increased activity in Egypt's passenger car market.

After years of stagnation, industry leaders have begun setting up dealerships and building assembly plants.

Passenger car sales have jumped from a low of 20,000 units in 1992 to a forecast 75,000 this year, about half of them locally assembled. Although the numbers are small given Egypt's 60m inhabitants, car dealers are banking on a doubling of sales by the year 2000 which will expand the market from its approximate current size of one passenger car per 100 citizens.

Mr Michael Auld, general manager of Ford's worldwide export operations, said the rapid rate of growth had attracted the company's attention.

Ford would introduce a new marketing strategy in Egypt which, if successful, would be used as a model for other Middle Eastern and African countries, he said.

To help gain national coverage, Ford Egypt had entered into an arrangement with Mobil Oil Egypt which would provide specialised servicing and parts for all Ford vehicles at its petrol stations throughout the country.

"This will help us bring our vehicles to a large number of people, and not only in the main population centres," he said, adding that the company hoped to have around 10 per cent of the market for passenger cars by 2000.

The new Ford and Skoda models will be competing with a group of local entrepreneurs who have taken advantage of the high customs duties on imported cars to assemble locally.

Over the past few years, local private sector companies have begun assembling Suzuki Swifts, Hyundai Excels, GM Opel Vectras, Peugeot 405s, Citreon AXs and the Cherokee four-wheel drive, adding choice to the ubiquitous 1970s Fiat models still churned out by the state-owned El-Nasr Automotive Manufacturing Company. To add to these, a plant for assembling the luxury Mercedes Benz E-series is under construction outside Cairo, and talks or studies are under way for assembly of Skoda, Daewoo, Kia, Nissan and BMW.

Mr Raouf Ghabbour, chairman of Itamco, which launched the Hyundai Excel GLS car on the market at the beginning of this year, said the local assemblers had so far got an edge on imported cars. At a retail price of E£51,000 (£9,600)a locally-assembled Hyundai undercuts its imported equivalent, which suffers 106 per cent customs duties, by more than 30 per cent.

But he admitted that as the government progressively lowered customs duties on imported cars – in line with Egypt's membership of the World Trade Organisation and a free trade agreement being negotiated with the European Union – it would be more difficult for the local assemblers to compete.

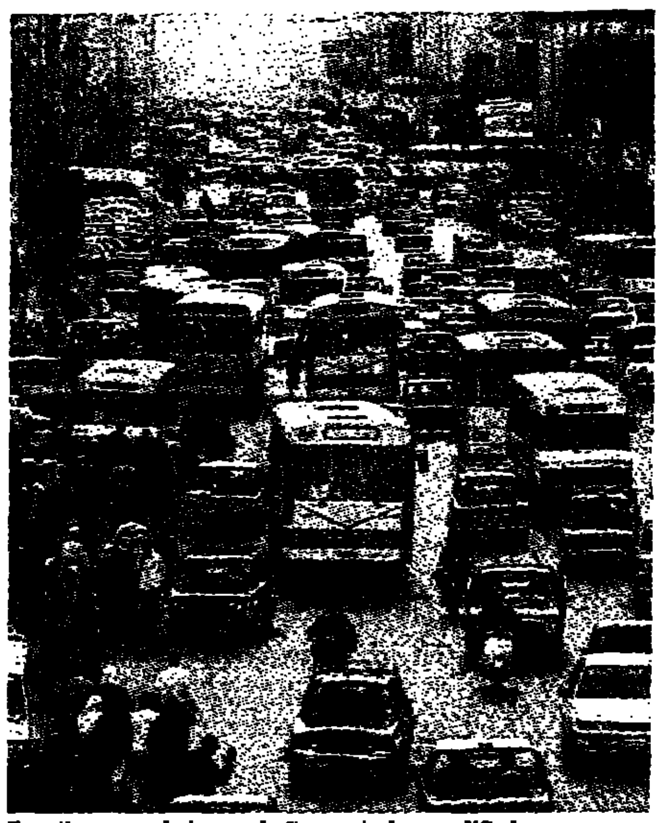
"We need to constantly work at efficiencies and keep increasing the proportion of local content used in the cars," said Mr Ghabbour.

"If we can do this we should gain from our cheap but skilled labour force and stay competitive even as the tariffs are brought down."

Most assemblers are of course keen to keep the protective barriers to allow the nascent industry to develop. But Mr Shafik Gabr, chairman of Artoc Group for Investment and Development, which has the Skoda dealership, is sceptical of their long-term viability.

"Because passenger cars are so capital intensive I worry that many of the local assemblers will not be able to survive without foreign equity and technical participation when protectionist barriers are taken down," he said.

Until now nearly all the operating factories have been owned by Egyptian investors with technical assistance from the foreign car group, with the exception of General Motors Egypt, which is part owned by General Motors of the US, Japan's Isuzu Motors and Saudi and Egyptian investors.


Egypt's car market surged after controls were lifted

WORLD TRADE NEWS DIGEST

HK and Taiwan in air accord

Taiwan and Hong Kong have ended an impasse on air services, agreeing yesterday to double the number of carriers flying the lucrative north Asian route. Cathay Pacific, which now makes 105 flights a week on the route, will be joined by affiliate Dragon Air, which concentrates on flights to China and south-east Asia. Taiwan's national airline China Airlines (CAL), which also makes 105 flights a week on the route, is expected to be joined by EVA Airways, owned by Taiwanese shipping concern Evergreen. The five-year commercial agreement has yet to be endorsed by Beijing as it will straddle the July 1997 handover of Hong Kong to China.

The long-sought route would be a boon to the five-year-old EVA Airways, which has been struggling to turn a profit. Another Taiwanese carrier, Fu Hsing, is also keen to work the route. *Louise Lucas, Hong Kong, Laura Tyson, Taipei*

China defiant over WTO terms

Beijing yesterday rejected as unacceptable the conditions set for China's entry into the World Trade Organisation. The demands exceeded "the level of China's economy and are against the basic principles of the WTO," a ministry of foreign trade spokeswoman said. Mr Mickey Kantor, US trade representative, speaking for the Quad group of industrialised economies – the US, Europe, Japan and Canada – stressed at the weekend that China's position on WTO entry could not be accepted. "All the Quad members are deeply concerned about China's failure so far to meet even the minimum criteria [for WTO entry]."

The Chinese spokeswoman said China still hoped to enter the WTO, but expected concessions from the countries that had been keeping it out. *Reuter, Beijing*

Pipeline to Aegean confirmed

Agreements for the construction of a 300km oil pipeline from the Bulgarian Black Sea port of Bourgas to the Greek Aegean port of Alexandroupolis will be signed by Russia, Greece and Bulgaria in November. Mr Karolos Papoulyas, the Greek foreign minister, confirmed the deal yesterday after talks in Sofia with Mr George Pirinski, his Bulgarian counterpart.

The $668m project – which is due for completion by 1997 – will open a new route for Russian and central Asian crude oil to the west, avoiding the congested Turkish-controlled Bosporus, which has been the subject of heated debate between Russia and Turkey.

Oil will be transported by tanker from Russia's Black Sea port of Novorossisk to Bourgas from where the new underground pipeline, with a capacity of 600,000 barrels a day, will carry the crude to the Aegean. *Theodore Troev, Sofia*

Kia offshoot plans Brazil plant

Asia Motors, a subsidiary of South Korea's Kia Corporation, has announced plans to invest $500m in its first car plant in Brazil. It is the third car manufacturer to arrive in Brazil this year, attracted by the country's rapidly growing economy.

Asia Motors intends to produce 50,000 vehicles a year, mainly minivans, with production expected to begin in 1997. The investment was expected to generate more than 1,000 direct jobs, the company said. *Angus Foster, São Paulo*

Contracts and ventures

Hughes Olivetti Telecom, a joint venture between Olivetti of Italy and Hughes Network Systems of the US, has won a contract to install and manage a European satellite telecommunications system for Opel and Vauxhall, the European carmaking subsidiaries of General Motors of the US.

The contract, understood to be worth $60m-$70m, will involve the installation of the network over the next three years and its maintenance for at least seven years. It will enable Opel and Vauxhall dealers to communicate with the central office to order new cars and spare parts from stocks updated in real time. *Andrew Hill, Milan*

■ A Canadian consortium plans to invest $6.6m to renovate and operate the Hotel Tavrida in Yalta, on Ukraine's Crimean peninsula, the first large western foray into Crimea's main tourism industry. Smith Carter and Hemisphere Engineering, members of the Canadian consortium, formed the venture with the city government, local property fund and a Ukrainian company. *Matthew Kaminski, Kiev*

■ SNC-Lavalin, a Canadian engineering and construction management group, will lead a consortium planning to build a US$500m, 17km light rail transit system in Karachi, Pakistan. The client is the national Mass Transit Authority of Pakistan. *Robert Gibbens, Montreal*

South American satellite project sees equity boost

By David Pilling in Buenos Aires

NahuelSat, the Argentine and regional satellite due to be launched in 1996, is close to securing $25m in equity participation from state-owned telecommunication groups in Mexico, Paraguay and Uruguay.

According to Mr Eckart Schober, NahuelSat general manager, the project is in "advanced discussions" with Telecomm of Mexico, Antelco of Paraguay and Antel of Uruguay, which would bring total equity participation in the project close to the "critical mass" of $100m.

Mr Schober, who represents the project's controlling partner Daimler-Benz Aerospace, said it was also hoped that some regional companies would take out a stake, although Argentine groups were unlikely to participate.

NahuelSat, which was awarded a 24-year licence to occupy Argentina's orbital positions from 1997, will be launched by Arianne from French Guiana next September. The company will offer direct-to-home video packages in three Latin American regions: the so-called southern cone countries comprising Argentina, Chile, Uruguay, Bolivia and Paraguay; a Portuguese service in Brazil; and a Spanish-speaking service in a third region comprising most of the continent from Mexico to Argentina.

Mr Schober said direct-to-home broadcasting would take up 60 per cent of the satellite's capacity. Because of the strong signal, of up to 50dBW, most receptor dishes would only need to be 50cm in diameter. Even in Belem, in the Brazilian jungle, dishes of 1.2m would be able to capture a signal, compared with current requirements of 2.5m.

He rejected suggestions that NahuelSat would struggle to compete with cable services in Argentina, given estimated cable penetration of 50 per cent – by far the highest level in Latin America.

If NahuelSat secured quality programme packages, it would be able to sell these direct to the cable companies, which would pass the signal on to their customers for an additional fee.

The remaining 40 per cent of NahuelSat's customers would be transmitters of voice and data.

NahuelSat, which is operating an interim service using old Canadian satellites, has signed 30 contracts running to the year 2008. Annual turnover is $25m and is expected to rise to $50m-$60m by January 1997.

Founding equity partners in the project are Daimler-Benz Aerospace, with a $11m stake, Aérospatiale ($10m) and Alenia Spazio ($10m).

Last May, Telecom Argentina, which had originally treated NahuelSat as unwelcome competition, took a $5.7m stake in the project. The equity package is completed by Lampe Bank International of Germany, with $11.5m, and the International Finance Corporation, the commercial arm of the World Bank, with $5m.

Motorola to raise chip production

By Paul Taylor

Motorola, the US electronics group, will announce plans today to increase its worldwide manufacturing capacity for smartcard microcontroller chips tenfold to 10m chips a week. The move reflects surging demand for the credit-card-sized devices.

Motorola, which already claims a 70 per cent market share for the microchips which form the heart of smartcards, is forecasting that the annual global market will grow from under $100m today to over $1bn by the end of the decade.

Overall Motorola is investing $2.5bn in semiconductor manufacturing facilities this year and Mr Allan Hughes, Motorola's worldwide smartcard operations manager, said "a significant proportion" of this investment will be spent on smartcard production.

As part of its smartcard chip expansion programme Scotland has been designated the multinational's worldwide headquarters for smartcards and will form a key focus for the new investment. Its South Queensferry plant in Scotland, acquired from Digital Equipment in June, has been adapted for microcontroller production and will begin operations soon.

"Smartcards have finally come of age," said Mr Hughes. "After 18 years of slow but steady growth the market is set to take off with a number of major applications throughout the world in fields such as health care, financial services and telecommunications."

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Lloyd's wins debt collection case against Names

By Ralph Atkins, Insurance Correspondent

Lloyd's of London won a significant legal victory yesterday which, if upheld in higher courts, could ease the collection of several hundreds of millions of pounds owed by thousands of lossmaking members.

The High Court ruling provided a fillip for the insurance market as it seeks to implement an ambitious recovery programme launched in May. In a test case, the court upheld the "pay now, sue later" clause in Lloyd's agents' contracts with Names which require debts to be paid even if legal action for compensation is pending. Lloyd's last night expected 370 writs to be served against Names – individuals whose assets traditionally supported the market – as part of a debt collection exercise begun this year.

However, the beneficial effects on confidence in Lloyd's were undermined when it emerged that Lloyd's is backing away from a pledge to poll members next month on its recovery plan.

Lloyd's has already abandoned a pledge to tell individual Names this month how much the proposals are worth to them, although a less ambitious progress report is expected soon. Lloyd's executives believe it would be unwise to ask Names to vote on the plan when they will have little detailed information.

Under the plan, Lloyd's would next spring transfer billions of liabilities into a separate reinsurance company, Equitas, leaving a "clean" ongoing Lloyd's. Names are also being offered at least £2.8bn to compensate for their losses and to drop legal actions.

Yesterday's High Court ruling may encourage Names to accept the settlement offer because avoiding their debts will be harder. The ruling also strengthens Lloyd's hand by boosting its finances and making the plan success less important to Lloyd's long term survival.

But an appeal is almost certain, probably next month. Lossmaking Names had argued Lloyd's operations breach European competition law because they have the effect of turning the insurance market into a cartel, and that the "pay now, sue later" clause was invalid.

In a 58-page judgment, the court rejected that argument. Mr Justice Rix said: "I simply fail to understand...how an obligation to pay calls can be said to distort competition." He said the idea that payments of money owing to policyholders should be subject to deductions or await counter-claims "is a startling business. The Lloyd's market could not operate on that basis."

Mr Christopher Stockwell, chairman of the Lloyd's Names Associations' Working Party, said: "We are disappointed that once again we have to go to the Court of Appeal...It appears that the lower courts have not grasped the importance of European law and the impact that it is having on the legal framework of our country."

But Mr Philip Holden, head of Lloyd's financial recovery department, said the ruling "represents an unambiguous warning to those who won't pay their Lloyd's losses."

Fraud probe on phoney scheme

By William Lewis

British fraud squad officers investigating a $200m "blocked funds letter" scam are also probing a second phoney investment programme which was falsely said to be guaranteed by the United Nations.

The programme, known as Codexe UN, is thought to have been sold to several wealthy individuals in Singapore, the UK and Europe, who invested up to $500,000 each.

They were attracted to the investment programme by the claim that Codexe "is a committee of and acting for and behalf of the United Nations". However the UN has told investigators that it has no connection with Codexe.

Last week the Metropolitan Police Fraud Department arrested three individuals who are thought to have been involved in brokering blocked funds letters.

All three have been placed on police bail.

UK fraud officers, with the Federal Bureau of Investigation and Interpol, are investigating Capital Support Corporation, based in the US. They are also working with Swiss fraud investigators who have been investigating FS Financial Support of Geneva, Switzerland, which is related to Capital Support.

Prosecutors allege that blocked fund letters purportedly issued by well-known European banks were used to defraud investors. At least 60 individuals have been involved in selling the blocked funds letters around the world.

Potential Codexe investors were assured that "upon receipt of the Blocked Funds Commitment, which must be a minimum of $100m, Codexe/United Nations will issue their Agreement/Guarantee making the Beneficiary (the investor) an irrevocable undertaking for a gross annual percentage return of 192 per cent".

They were also told that "the Investment Programme is handled by Top 50 World Banks".

UK NEWS DIGEST

Business anger at plan to fine over illegal staff

UK business leaders have expressed concern that controversial plans to fine employers who hire illegal immigrants look set to be included in next month's Queen's Speech, which lays out the government's legislative agenda.

Mr Michael Howard, the home secretary, is understood to have won cabinet backing for the principle of making employers responsible for checking whether staff are illegal immigrants. One Home Office official said that the intention was not to hound employers and the law would be framed to give honest businesses the benefit of the doubt. "This is aimed at those who flagrantly flout the rules and deliberately seek out and exploit illegal immigrants."

The cabinet is expected to agree to the inclusion of the proposal in the Immigration and Asylum Bill, when it meets tomorrow. But the plan was condemned by Mr Tim Melville-Ross, director-general of the Institute of Directors, who called on Mr Howard to rethink the measure.

"Business should not be forced to adopt the role of policeman by government abdicating its responsibility and imposing more burdens on business," Mr Melville-Ross said. He added that it would would heap costs on industry and would be particularly damaging to small businesses.

Mr Adair Turner, director-general of the Confederation of British Industry, said: "The proposed legislation will do nothing to improve equal opportunities and may undermine employers' commitment to implement equal opportunity policy.

George Parker, Political Staff

French plastics plant for NE

Neyr Plastiques (UK), a French-based plastic components manufacturer, is to set up a £16m ($25.2m) computer controlled production plant in Peterlee, County Durham, in the north-east of England, making components for the automotive and consumer electronics industry. The development, announced yesterday, will employ 100 people when production starts in a year's time, with another 100 jobs to be created in 1997. Construction will begin in late 1995.

The factory will mainly supply the UK market. Groupe Neyr already supplies plastic injection mouldings to Black and Decker's Spennymoor, Co. Durham, plant and is also a second-tier supplier to Nissan's Sunderland car plant, through its relationship with Co. Durham-based Calsonic Climate Control Systems. The Neyr project is to receive £950,000 Regional Selective Assistance from Britain's Department of Trade and Industry.

Chris Tighe, Newcastle

Lost excise duty reported

Britain lost £370m ($585m) in revenue in the year to June 1995 as Britons continued to shop for cheap drink and cigarettes elsewhere in Europe where excise taxes are lower.

Customs & Excise told the Treasury and civil service committee, one of the most prominent all-party Commons select committees, that the Treasury lost £220m in excise duty and VAT on alcoholic drinks and £150m on tobacco in the year to June.

Graham Bowley, Economics Staff

Rap for British marketing

Sir Colin Marshall, chairman of British Airways, yesterday said that many British companies suffered from the delusion that they were world class at marketing.

Speaking before the launch of the Marketing Council in London, Sir Colin said: " If you go around and ask chairmen and chief executives in this country what they think, they will say that they are very good at marketing". But while this might be true by British standards "only a handful of British businesses measure up to the rest of the world", he said.

The Marketing Council aims to become a national champion of marketing excellence. It has attracted support from more than 60 companies and financial contributions from industry and government totalling £850,000.

Tim Dickson

Bank fights low morale

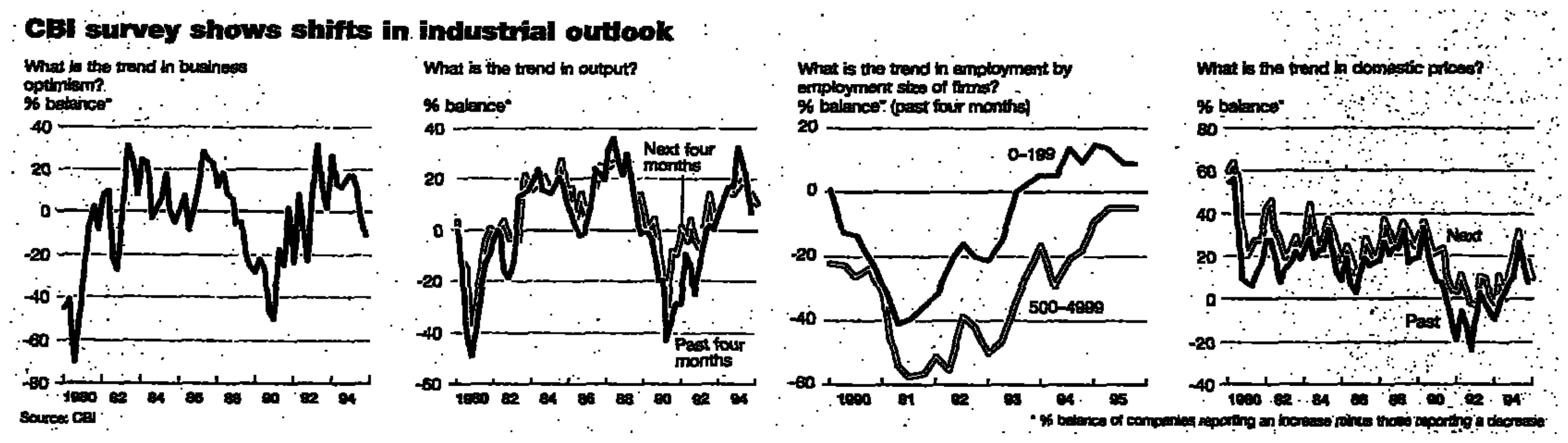
The Bank of England is to reform the way it manages staff after a survey of 3,000 employees revealed that morale was low as a result of restructuring and the closure of some operations.

Mr Howard Davies, the new deputy governor of the Bank, yesterday held the first of three meetings for staff to give the results of the survey, which found that many were depressed and unsettled by recent changes. In a letter to staff, Mr Eddie George, the governor, said the survey had found that "most members of staff are proud to work for the Bank, but morale is currently low," and senior managers wanted to work towards an improvement. "The change process begun 18 months ago has been unsettling and people see considerable scope for improvement in the way we manage the Bank," he wrote. He said such results were "not uncommon" in organisations undergoing change.

The Bank lost nine of its 35 most senior officials in the restructuring implemented by Mr Rupert Pennant Rea, its former deputy governor, 18 months ago.

John Gapper

CBI survey shows shifts in industrial outlook



Source: CBI

* % balance of companies reporting an increase minus those reporting a decrease

Mixed picture for manufacturing sectors

Gillian Tett reports that the CBI's quarterly survey shows exports continue to drive a broader upturn

Chemical companies, building material groups and textile producers are all reporting a less upbeat business climate, a Confederation of British Industry quarterly industrial survey yesterday showed.

Indeed, metal manufacturers have seen a sharp fall in the level of output and orders.

Nevertheless, this downturn has been partly offset by a steady upturn in other sectors, like aerospace. Meanwhile, food, drink and tobacco companies report a strong increase in output and orders.

These diverse sectoral trends yesterday painted an intriguing picture of a shifting manufacturing climate.

For although the data suggested that the recent strong pace in industrial growth is easing back, the relative optimism between different business sectors has changed from the pattern seen earlier in the recovery.

Measured overall, exports continue – as during the past three years – to drive the broader manufacturing upturn.

The proportion of the 1,156 manufacturers surveyed who reported that that export have risen over the four months to October, compared to those who report they have fallen, was a positive balance of 11 per cent.

The proportion of those who said that domestic orders were rising, compared to those reporting a decline, by contrast, was a negative balance of 3 per cent.

But although this pattern testifies to the continued significance of exports for the manufacturing sector, the export growth was markedly lower than earlier this year.

Even more strikingly, some of the sectors which spearheaded the export growth last year, seemed to be among the least optimistic now.

Chemical companies, for example, which saw strong growth earlier in the recovery, reported a slowdown in the growth of orders. The balance of companies reporting stronger orders, compared to those reporting weaker ones, was 5 per cent – the lowest proportion for 18 months.

Consequently, although confidence in business prospects remained mildly positive, it was lower than any level for two years.

Metal manufacturers, which also saw strong growth over the past 18 months, reported a particularly sharp slowdown. A negative balance of 43 per cent of companies reported that orders had fallen over the past four months, while export orders declined for the first time in two years.

The motor vehicles sector, which saw startling rates of export growth last year, continued to report increases over the summer. A positive balance of 30 per cent of companies reported an increase in output over the last four months.

However, car manufacturers do not expect this to last: companies were more gloomy about their export prospects in the next four months than at any point during the last two years. A balance of 25 per cent of companies expecting business prospects to deteriorate.

Electrical engineering was another area where conditions seem to be turning. Companies were far less optimistic about prospects than in recent surveys, although a positive balance of 8 per cent of companies still reported that orders had risen in the last four months.

Nevertheless, these falls were partly offset by signs that other sectors, which had performed less well earlier in the recovery were picking up.

Aerospace, for example, saw its strongest rise in output for five years in the last four months – although the balance of companies who reported higher orders was still relatively modest at 10 per cent.

Consequently, the sector was one of the only areas that reported improving optimism.

Food, drink and tobacco companies are also surprisingly cheery. A positive balance of 46 per cent of companies reported higher export orders, while firms remain relatively optimistic about future months.

Meanwhile, textile and clothing companies said that the modest rise in output that they had seen in the last two years had come to an end: a balance of 27 per cent said that orders had fallen, with the decline expected to persist over the next few months.

Britain claims win over EU fish protection rules

By Alison Maitland

The British government yesterday claimed a victory against Brussels bureaucracy over new rules to protect fish stocks when Spain and Portugal gain access to the sea west of the UK and Ireland next year.

It also pledged tough action against any Spanish trawlers caught fishing illegally in the so-called western waters.

Mr Tony Baldry, the UK fisheries minister, described as "incredibly bureaucratic and cumbersome" European Commission proposals requiring fishing vessels to tell authorities of their entry and exit from the western waters. This would have meant "most [UK] skippers spending most of their time on the phone or the fax".

He secured unanimous agreement from Britain's EU partners to allow member states to decide how to monitor vessels fishing their own waters.

Under the compromise, on which fisheries ministers will vote tomorrow, all EU trawlers over 15 metres entering foreign waters will make a single report on their journey when away from their home port for less than 72 hours.

But they will have to give a regular account of their movements when away for longer.

Controversy has surrounded the entry of Spain – current president of the EU council – to the western waters and particularly the Irish Box, the waters that surround Ireland, where fish stocks are fragile.

The National Federation of Fishermen's Organisations, which represents fishermen in England, Wales and Northern Ireland, said the latest compromise "moved in the right direction".

But the federation said British trawlers fishing from Northern Ireland or south west England would still "be hit by the full force of the commission's reporting requirements, which are unacceptable to us". This is because they would spend most of their time in Irish or French waters and would therefore have to report their movements.

Mr Baldry warned: "We'll be directing considerable energy to ensuring compliance by Spain with the provisions of the Irish Box. If we find a Spanish vessel in the Irish Box which is not supposed to be there, we'll detain that vessel and look into whether it was infringing EU rules."

Regulator warns on gas contracts

By Robert Corzine

Ofgas, Britain's gas industry regulator, has warned that British Gas may be facing a financial "time bomb".

Ms Clare Spottiswoode, the Ofgas director general, said the company and City analysts had been too complacent in their approach to the problem of £40bn ($63.2bn) worth of long-term gas contracts the company holds with big North Sea gas producers.

The "take or pay" contracts, many of which were signed before the company was privatised in 1986, had the potential to undermine British Gas's viability in coming years, she said.

These contracts require British Gas to pay a producer for gas even if it cannot then sell it on in the market.

"It's not obvious that British Gas's long-term financial position is secure," she said. "But analysts don't seem to want to think about the implications."

Many of the contracts require British Gas to pay more than twice the current spot market price for gas it no longer needs as a result of growing UK gas competition.

The company paid £500m under the take or pay provisions in the first half of the year, and the contracts were a big factor behind a profits warning it issued last month.

British Gas yesterday declined to make a formal comment on Ms Spottiswoode's statements, made in an interview. Senior executives, however, say that much of the £2bn that has been wiped off British Gas's market capitalisation over the past six months can be attributed "to the market finally recognising the problem."

British Gas executives are still struggling to determine the size of the eventual problem. One senior executive yesterday declined to estimate the eventual liability, other than to say: "It is a serious problem and we need relief."

Ms Spottiswoode said she did not want to be "alarmist" by raising the possibility that a future financial crisis could call into question the long-term survivability of British Gas.

Ms Spottiswoode is responsible for ensuring the financial viability of the regulated parts of British Gas, including TransCo, the pipeline company that accounts for the bulk of the company's operating profits. She said that even if the contracts problem proved so large as to pull the rest of British Gas down, "TransCo would not be at risk."

The regulator stressed that British Gas did not face an imminent crisis, but feared that the eventual liability of British Gas could be more than £1bn.

Mr Tim Eggar, the UK energy minister, said the problem of British Gas contracts "is one which the industry collectively has to address".

Most analysts yesterday said they believed the problem would still be solved through negotiation. Some, however, said a serious problem could arise for British Gas if it is not solved by the time full competition comes into effect in 1998.

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Turning up the heat, Page 19

BUSINESS AND THE ENVIRONMENT

Making waves

A plan to open one of Brazil's main rivers to barges is causing controversy among ecologists. By **Angus Foster**

A project to make the Araguaia river in the eastern Amazon navigable for barges could open up the heart of Brazil. As well as providing easy access to the sea, it would open export routes for products such as soya which are planted 1,000 miles inland.

However, critics say the project may only be economically attractive if environmental costs are left out of the equation. Their chief concern is that the "water highway", as it is called, would go though one of the most sensitive areas of wetland in South America.

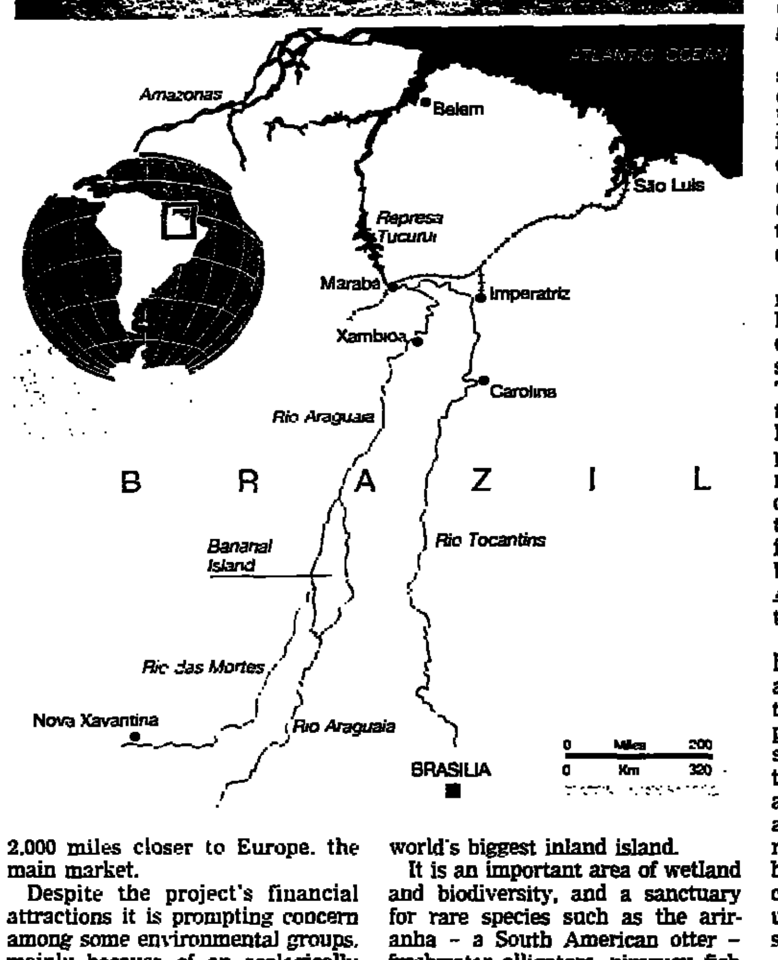
The Araguaia, and the Tocantins river into which it flows, are cut off from the sea by the huge hydroelectric dam at Tucuruí. The Araguaia's lower reaches are impassable because of rapids, and during the May to October dry season the presence of sand banks means it is navigable only by small boats.

Brazil's government hopes that with relatively modest investment most of the river can be made navigable throughout the year. If so, it would form part of an important transport corridor to the centre of Brazil and "bring economic and social development to an extremely promising region which is lacking in infrastructure", according to Rogério Amado Barzellay at the government agency overseeing the project.

The agency says it would cost about $45m (£29m) to dredge and mark out a year-round channel for barges with draughts (the amount of water drawn by the craft) of 1m, which would run for 770 miles as far as Xambioá on the lower Araguaia. From there, cargo could be trucked to the nearby towns of Imperatriz or Marabá. It could then be taken by train to the sea at São Luis, using the railway built by Companhia Vale do Rio Doce, the Brazilian mining giant, to carry iron ore from its Carajás mine.

According to Mário Beznos, whose company Navbel wants to start barge services next year, river transport would be a cheap option for the important soya-growing region of Nova Xavantina. "River transport breaks the vicious circle. Before, there was no demand because there was no transport and there was no transport because there was no demand," he says.

The region, which last year produced about 1m tonnes of soya, relies on road transport to the southern port of Paranaguá, a journey which costs about $80 per tonne transported. Navbel, which carried out a trial run earlier this year when the river was flooded and easily navigable, says the river trip from Nova Xavantina to São Luis cost $53 per tonne. In addition, exporting via northern Brazil is about $6 a tonne cheaper than doing so from Paranaguá, because it is



2,000 miles closer to Europe, the main market.

Despite the project's financial attractions it is prompting concern among some environmental groups, mainly because of an ecologically sensitive region on and around Bananal island. The island consists of a land mass the size of Wales, formed where the waters of the Araguaia part and meet again 300 miles downriver, making Bananal the world's biggest inland island.

It is an important area of wetland and biodiversity, and a sanctuary for rare species such as the ariranha – a South American otter – freshwater alligators, pirarucu fish and various water fowl. To add further complications, the south of the island is an indigenous reserve for Karaja Indians and the north is a national park containing one of the few remaining areas of primary forest in the eastern Amazon.

Stephan Karl Fox, a consultant for Gaia, the environmental group, says it is too early to reach conclusions about the water highway because environmental impact studies commissioned by the Brazilian government are not expected to be completed until early next year.

"But the worry is that if you increase the flow of the river and make it suitable for navigation, you increase the velocity of the water and that can affect the level of the lakes in the area. It can happen very quickly, in five years even, and plants react very sensitively to changes in humidity," he says.

There are similar worries about another water highway under study further to the west. That aims to make the Paraguai and Paraná rivers navigable and provide access to the sea for products from central Brazil and Bolivia. The project has given rise to serious environmental concerns and criticism from groups such as the World Wildlife Fund, which fear it may lead to a draining of the Pantanal wetlands, the biggest such area in South America.

Amado Barzellay says groups such as Gaia are right to be concerned but need not worry because, he says, the increase in water flow is unlikely to be enough to cause damage. "But we need an analysis of how much speed increase and damage would be caused. Where there will be damage, we won't dredge," he says.

According to Beznos, the environmental risks are low. Navbel's barges will begin operating only during the November to April wet season, when no dredging is needed. They will have double-layered fuel tanks to prevent oil or diesel spills. He says the encouragement of soya planting will also help restore a region which has been damaged by cattle ranching. Critics point out that soya farming can also be harmful, and there are concerns that a big soya project to the east of the Araguaia is lowering the water table.

Brazil's government has high hopes that water highways could be a cheap way to develop infrastructure links in the Amazon region. A policy document earlier this year stressed the need to invest in river transport and link rivers with road and rail networks. The government also hopes that using the region's rivers would be less damaging than building more roads. Previous road construction in the Amazon has usually helped foment land invasions and rapid deforestation.

However, as the concerns over the Araguaia and Paraguai water highways make clear, coping with environmental questions in areas as sensitive as the Amazon is rarely without cost and never without controversy.

The drive to clean up the world's air

Improvements to vehicle design have greatly reduced petrol vapour emissions. **Haig Simonian** reports

Few motorists will have noticed the short, sharp hiss emitted from their cars when they put the petrol pump nozzle in their fuel tanks. Fewer still will have understood why they should be pleased by the sound.

More may have sensed petrol stations are no longer as smelly as they were and that cars give off the occasional whiff of fuel less frequently.

These phenomena reflect efforts in recent years to reduce pollution from evaporative petrol emissions. Although relatively minor compared with the quantity of exhaust gases emitted, evaporative fuel emissions have become increasingly sensitive for legislators and engineers.

Evaporating petrol accounts for about 17 per cent of the pollution from motor vehicles. Although much is given off while refuelling, even a parked car lets vapour seep through its fuel pipes and connectors. Fuel vapour harms the environment because of its high content of ozone – a big contributor to urban smog – and the presence of benzene, which is believed to cause cancer.

A further problem is that although petrol containing less lead has reduced the risk to children's brain function, the greater use of aromatic hydrocarbon substitutes has made petrol more prone to evaporation.

Developments in car design have been similarly twin-edged. Moving fuel tanks from the extreme rear of vehicles to above the rear axle has reduced the risk of explosion in the event of a rear-end collision. But the repositioning means fuel in the tank gets hotter, increasing evaporation and making it more volatile. Even streamlining the undersides of vehicles has reduced the flow of air which helped keep fuel tanks cool.

Environmentalists' sharper focus on evaporative emissions has led to a range of environmental legislation around the world, with the US leading the way. Most takes effect between 1998 and 2000.

In the US, legislation has sent vehicle makers and component suppliers back to the drawing board. Manufacturers are devising new ways of dealing with on-board fuel vapours, while component suppliers are seeking new non-porous materials for items such as fuel lines.

The sense of urgency has been reinforced by sanctions allowed for in the legislation, including an obligatory model recall if a single vehicle is found to be out of line.

US legislation has required a fundamental rethink in the motor industry. In the struggle to reduce weight, steel has long been replaced by plastic to make fuel tanks. Now, a once simple moulding has been superseded by

Evaporating petrol accounts for about 17 per cent of the pollution from motor vehicles. Although much is given off while refuelling, even a parked car lets vapour seep through its fuel pipes and connectors

a much more complex laminate construction, with as many as five layers of different plastics used to prevent fuel vapour emerging.

The same has happened to pipework. Straight pipes are still made of steel, but the tight spaces of vehicles mean many pipes must be flexible, leading to the use of rubber as a standard material.

Rubber has now made way for Teflon, a special type of plastic which is less permeable. Nylon, used in many locations, has been replaced with more complex multilayer plastics.

Suppliers, such as Bundy, the subsidiary of Britain's TI group, and the Higbie tubes and connectors subsidiary of ITT, have become more innovative. Even simple components such as hose connectors have been redesigned, with seals being rethought to reduce emissions.

It is the better seals between the fuel filler pipe and tank, combined with the installation of carbon vapour recovery receptacles on all new vehicles – to collect the vapour that forms when refuelling – that account for the hiss that occurs when the fuel filler cap is unscrewed.

Additional lamination of pipes and hoses to reduce emissions means pipes have become bigger in diameter. But wider tubes are more difficult to bend, and some types of multilayered tubing are impossible to bend to the required extent.

An apparent solution, using spiral, convoluted tubes, has had unwanted side-effects, since the extra tubing has increased the risk of vapour loss.

Roger Thomas, head of marketing for Bundy, says a car fuel system has about twice as much tubing as in the past because of the need to convolute. Costs have soared, as multi-layer tubing costs about twice as much as the old-fashioned tubes.

However, the drive towards more sophisticated hoses seems irresistible. Improved mixes of laminates are expected to produce wider pipes able to withstand a broader range of temperatures. Hoses and connectors will become more complex to cut permeation losses further.

Meanwhile, car makers are campaigning in Europe to avoid repeating the legal defeat they suffered in the US in the early 1990s. The US authorities ruled that the onus to reduce evaporative emissions when refuelling should fall on motor manufacturers rather than petrol suppliers.

With the same issues under debate in the European Union (where legislation is in draft form) the signs are that the oil industry will have to bear the burden of re-equiping petrol stations.

But whichever way the legal dice roll, someone in the motor industry is going to have to invest in a lot of new high-tech pipes.

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TAIWAN

Enduring links with a far-off land

Relations with China have improved but problems remain, writes **Laura Tyson**

The sight of teenage boys break-dancing on the steps of the Chiang Kai-shek Memorial in central Taipei is one which might have prompted Taiwan's erstwhile strongman to roll over in his grave – had he ever been properly buried.

The Generalissimo has lain in state in a temporary tomb since his death in 1976, awaiting the day when his remains will eventually be transported to his ancestral home in China's Zhejiang province and formally laid to rest.

The Nationalist leader dreamt till the last of a triumphal reconquest of the mainland he fled in 1949 after losing a civil war to Mao Zedong's communist armies. To the current generation of Taiwanese, China is but a far-off foreign land studied from textbooks.

In the last decade, the island redoubt that the Chiang family ruled with an iron fist has been all but transformed into a prosperous and vibrant democracy. The political transition will be capped by the island's first direct presidential elections, to be held next March.

Martial law and a ban on the formation of opposition political parties were lifted in 1987. The advent of democratic reforms has allowed long-suppressed Taiwanese nationalism to become mainstream and led to a vigorous public debate on Taiwan's identity and future *vis-a-vis* China.

Rising prosperity has been a major force behind the success of political reforms. Taiwan's economy is forecast to grow between 6 and 7 per cent this year and the manufacturing sector is performing well although financial and property markets have suffered a downturn. In recent years Taiwan has become a big overseas investor, particularly in China and south-east Asia.

The government is promoting an ambitious plan to develop Taiwan into a regional manufacturing and financial centre in Asia. The trade regime is being liberalised in order to join the World Trade Organisation. Financial markets are slowly being deregulated and restrictions on foreign access are being relaxed.

President Lee Teng-hui is expected to win next year's elections

Per capita gross national product is forecast at nearly US$13,000 in 1995.

Most Taiwanese – about 85 per cent – are the descendants of people who migrated from China hundreds of years ago. Although they feel cultural affinity with the motherland, they reject the political system of the present-day People's Republic of China. Even the offspring of those who came to Taiwan in 1949 are reluctant to succumb to Chinese rule. China justifiably fears that Taiwan is quickly drifting further away from the goal of eventual reunification.

But at the same time, economic imperatives are driving Taiwan inexorably closer to its giant neighbour. Despite festering political tensions, Taiwanese companies escaping from spiralling costs at home have invested an estimated US$22bn in China over the past decade.

Trade has followed close behind: this year Hong Kong replaced the US as Taiwan's most important export destination for the first time. Roughly 75 per cent of Taiwan's exports to Hong Kong are bound for China. Taipei has banned direct air and sea links across the Taiwan strait since 1949, forcing most trade and investment to be channelled through the British colony.

China is regarded as the most important future market for Taiwan's industry. The relationship has been characterised as one of mutual dependence, although no one would deny that ultimately China has more leverage than Taiwan. China is now Taiwan's single biggest investment destination and Taiwan is the second largest foreign investor in China after Hong Kong. Taiwan companies are contributing to China's economic growth and helping to generate much-needed foreign exchange for Beijing's coffers.

Hong Kong's reversion to Chinese sovereignty in mid-1997 will force the Taiwan government to confront the sensitive issue of its future relations with China. China may try to use Taiwan's dependence on Hong Kong as a conduit for trade and investment as leverage to force concessions such as opening direct cross-strait shipping and flights.

A department store in Taipei, epitomising Taiwan's ambition to develop as one of the main regional commercial centres in Asia *David Hayes*

Beijing's objective is to force Taiwan to accept the "one country, two systems" model to be applied to Hong Kong, which will be run as a special administrative region after 1997. Taiwan has vowed it will never accept this formula, and clearly it would spell political suicide for any Taiwanese leader to deliver Taiwan into the hands of Beijing.

Taiwanese from all levels of society have long looked not across the Taiwan Strait but to the west – especially the US – for inspiration and support in endeavours in the realms of politics, economics and culture.

Despite the lack of official recognition, Taiwan maintains strong ties with both the US and Japan, which ruled the island for 50 years until 1945 and helped establish its industrial base. The higher ranks of government and industry are replete with Taiwanese who have studied in the US or Japan, including the president.

China is generally regarded by Taiwanese as a good place to make money but ruled by an unfriendly dictatorship best kept at arm's length. Beijing, for its part, views Taiwan as a rebellious province and its claims of sovereignty are officially accepted by all but a handful of mostly small countries. China repeatedly threatens to use force to regain control of Taiwan should it declare independence.

To demonstrate those intentions, Beijing carried out two series of missile tests in the sea just 85 miles north of Taiwan in July and August. The military manoeuvres were designed to intimidate Taiwanese into rejecting President Lee and dampen aspirations for international recognition and independence. But the strategy backfired. While the tests did upset share prices, the president's approval rating slid only marginally in public opinion polls and once initial fears abated. Taiwanese generally became more defiant.

The two sides began political contacts in April 1993 after more than four decades of confrontation, but Beijing suspended the fitful and less than fruitful dialogue that ensued last June in a fit of rage over a private visit to the US by Taiwan's President Lee Teng-hui. Talks are not expected to resume until after next year's presidential elections.

Peng Ming-min, Opposition leader: advocates independence

Tensions between Beijing and Taiwan could rise after the elections, which will be interpreted as a consolidation of Taiwanese independence in fact, if not in name. Mr Lee, the island's first native-born leader, enjoys wide popularity and is expected to win.

The ruling Nationalist party officially seeks eventual reunification with the mainland, but insists that China must change dramatically first. There must be parity across the strait in terms of democracy, economic development and prosperity, the Nationalists say. Meanwhile, they argue, Taiwan deserves a voice in the international community and should be granted dual recognition, along the lines of formerly divided Germany and currently divided Korea.

Beijing has excoriated Mr Lee in official media, accusing him of secretly seeking Taiwanese independence and saying that discussing reunification with him is "like climbing a tree to catch fish". Mr Lee has been hinting at a summit meeting with his Chinese counterpart, Mr Jiang Zemin, for over a year, but Beijing has not responded positively. It may prove difficult for Beijing to climb down from its earlier harsh stance toward Mr Lee and deal directly with him.

In the unlikely event that Mr Lee does not retain the presidency, Beijing would be even less happy to deal with Mr Peng Ming-min, the candidate for the leading opposition Democratic Progressive party. Mr Peng, a former dissident and political exile, openly advocates Taiwanese independence.

Other conservative candidates who profess to support reunification may be more palatable to Beijing, but any future president will be constrained by public opinion. Mr Lee's ruling Nationalist party may also for the first time lose its absolute majority in parliamentary elections in early December. This is likely to lead to more confrontations in the legislature and make it more difficult for the president to muster support for his policies.

■ **THE ECONOMY:** By Bethan Hutton

Service industries take centre stage

How the country is trying to carve out a new role for itself to avoid being squeezed

With high growth, low inflation and very low unemployment, Taiwan's economy would appear to be ticking along nicely. But behind the rosy figures, there are a few short-term concerns, and one long-term challenge.

Taiwan is in danger of being squeezed between the advanced, high-tech economies of Japan and the west, and the next generation of newly-industrialised nations growing up in south-east Asia. As the euphoria of its spectacular growth over the last two decades wears off, Taiwan has to carve out a new role for itself.

The economy is still growing at a very respectable pace – forecast at 6.6 per cent this year, 6.5 per cent last year – but the double-digit growth period is over, never to return: the base is now too high. Per capita GNP was $11,604 last year, compared to $3,167 a decade ago. Wage increases have slowed from more than 10 per cent to around 4 per cent, but the fact remains that Taiwan has become a comparatively expensive place to make things.

Dr Shiau Fung-Shyung, director of the economic research department at the council for economic planning and development, says: "We are facing competition from underdeveloped countries with low production costs. If we cannot produce high value-added products, we cannot compete with more developed countries."

The likely solution has already been found. "We are moving towards service industries, just like developed countries. We are moving from labour intensive industries to capital and technology intensive industries," says Dr Shiau. But making that transition will be no easy matter.

"In the future, we worry about whether the high-tech industries will continue to support sustained economic growth," says Dr Shiau. "Right now, we are making a lot of effort to try to improve technology, train our labour force, and also liberalise the economy, so that market mechanisms can improve the utilisation of resources."

So far, Taiwan has not been a world leader in developing its own technology – it has mainly played a catch-up game with Japan and the US, relying on lower costs and mass production to give it market share. Spending on research and development has not been a priority, particularly for the many small companies.

"Even in the integrated circuit industry, R&D expenditure is only about 4 to 5 per cent, which is significantly lower than advanced economies," says Mr Thomas Chien, general manager and economist at James Capel in Taipei. The government recognises this problem, and has introduced a number of incentives for companies to spend more on R&D, but whether these can do the job remains to be seen.

Taiwan's high-tech industries have become very successful in a short space of time and they have a high profile. But some doubt whether they will be enough to carry Taiwan's economy forward into the 21st century.

"I don't think integrated circuits alone can help Taiwan have high growth in the future," says Mr Chien. "It is a very capital intensive industry, it does not employ a lot of people in Taiwan. I think we will see more and more people switch to service industries. I think they will be able to bring Taiwan fortune."

But Mr Chien does not expect that fortune to arrive quite yet. "I think the domestic economy, at least for the next two or three years, will slow down."

One of the short-term problems that the Taiwanese economy faces at the moment is the collapse of the property market, due to oversupply following a building boom in 1992-94. "Starting in the first half of 1995, all that construction activity declined quite dramatically. I think the situation will continue to get even worse in 1996," says Mr Chien.

A related problem is instability in the financial system. In recent months, several small financial institutions – mainly credit associations – have collapsed or run into serious difficulties. A few of the mainstream banks also have uncomfortably large portfolios of bad debts, most of them construction-related. These two factors have had a dampening effect on the stock market, and thus on domestic consumption. The government has been trying to improve the situation with a more relaxed monetary policy, but the effects of this may not be seen until next year.

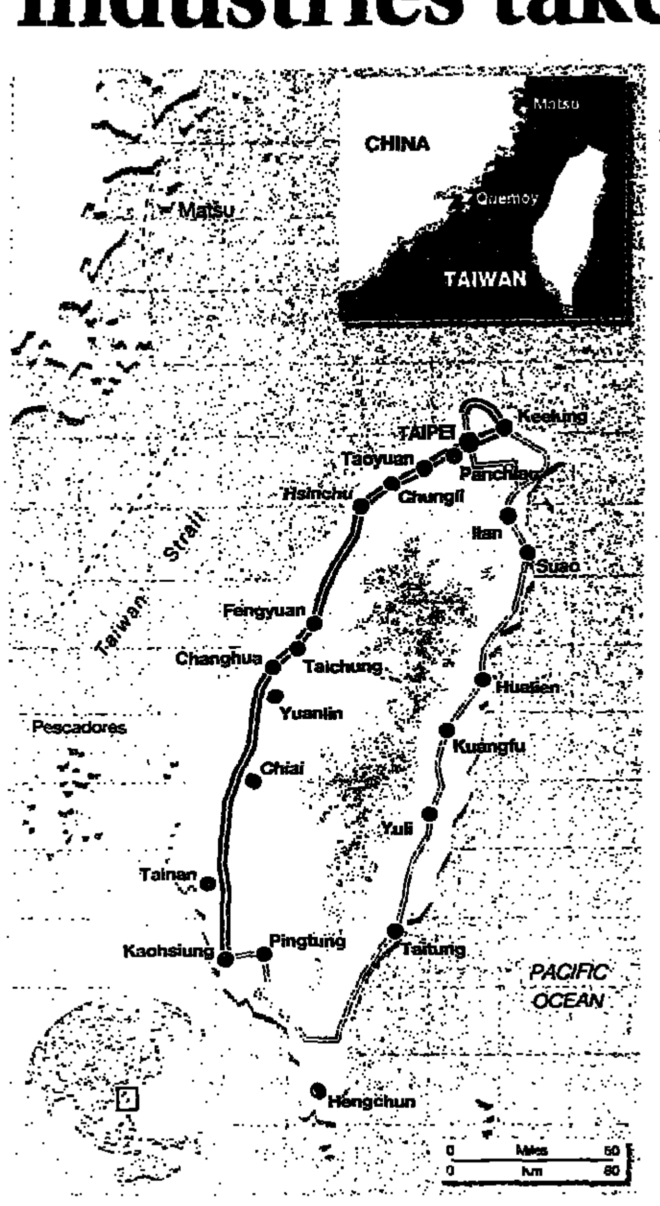
And of course Taiwan, as an export-oriented economy, is never beyond the reach of external factors – both positive and negative. Mr Duncan Wooldridge, an economist at Barings in Taipei, says: "For the first half of the year, export growth was at about 24 per cent year on year, which is high even by Taiwan's standards." The strength of the Japanese yen was an important contributing factor to that increase. But now that the yen has returned to more reasonable levels, will that wipe out all the Taiwanese export gains?

> In technology it has mainly played a catch-up game with Japan and the US

Mr Wooldridge thinks not. "When there is a big fluctuation in the yen-dollar exchange rate, there are big winners and losers in the Taiwan economy," he says. This is because 30 per cent of Taiwan's imports come from Japan, mainly capital equipment and components bound for the electronics industry, so the high yen creates a cost crunch for some companies.

"When the yen depreciates, then typically we see cost pressures reduce somewhat, but at the same time reduced potential for exports. When the yen appreciates, there is greater potential for exports, but pressure on the cost side. The net result is that companies have to absorb those costs by becoming more efficient. Then when the yen goes in the other direction, they are left in a stronger position, because of the ratchet effect on increasing efficiency," says Mr Wooldridge.

Seizing opportunities out of adversity in that way is something Taiwanese companies are good at. Taiwan has already proved itself supremely adaptable in changing rapidly from a small, underdeveloped island dependent on agriculture into a thriving export economy. If the past is any guide, the next transition, to an advanced economy based on technology and services, should be well within its capabilities.



KEY FACTS

Area	36,000 sq. km.
Population	20.1 million
Head of state	President Lee Teng-hui
Currency	New Taiwan dollar (NT $)
Exchange rate	end Sept. 1995 $1=26.20 NT$
	end Sept. 1995 £1=41.24 NT$

ECONOMY	1993	1994
Total GDP (US $bn)	220.6	243.0
Real GDP growth (%)	6.5	6.5
Components of GDP (%)		
Private consumption	57.0	59.2
Total investment	25.2	23.9
Government consumption	16.0	15.1
Exports	44.2	44.1
Imports	42.4	42.2
Annual % change in		
Consumer prices (%)	2.9	4.1
Wholesale prices (%)	2.5	2.2
Ind. production (%)	3.7	6.7
Man. production (%)	2.3	5.8
Share prices (%) [1]	86.9	21.5
At year end		
Unemployment rate (%)	1.2	1.4
Reserves minus gold (US $bn)	83.6	92.4
O/N interbank rate (%)	5.6	5.6
3 month interbank rate (%)	5.8	9.0
Stock market cap. (US $bn) [2]	124.6	160.2
Exports	84.3	92.2
Imports	-72.7	-80.3
Trade balance	11.6	11.9
Current account balance	6.7	5.7
Capital account balance	-4.7	-0.9

Main trading partners (%) [3]	Exports	Imports
US	26.2	21.1
Japan	11.0	29.0
Hong Kong	22.8	1.8
Singapore	3.6	2.8
Germany	3.5	5.6

(1) Annual % increase IFC index, US$ terms, at end Dec.
(2) IFC Stock market index. (3) Percentage share of trade 1994.
Sources: Datastream, Economist Intelligence Unit

■ **OFFSHORE INVESTMENT:** By Laura Tyson

Change in scale of overseas moves

As the island reaches its growth limits, larger companies are looking abroad

Chi Mei Industrial Corporation, one of Taiwan's biggest petrochemical companies and the world's largest producer of ABS, a material used to make certain types of plastics, is mulling its first offshore investment since its founding 36 years ago.

As Chi Mei's founder and chairman, Mr Hsu Wen-lung, explains, Taiwan's shortage of land and labour is forcing local companies from all industries to move overseas in order to develop. Chi Mei's predicament is illustrative of a fundamental shift under way in Taiwan industry as companies reach the limits of growth on the small and densely populated island.

Most of Chi Mei's downstream customers from Taiwan have already moved their production facilities to China. Originally, the company planned to spend US$120m on building a plant in China so as to be close to its main market, but that plan has been put on hold indefinitely due to a setback in the supply of raw materials. Now the company is considering investment projects worth a total of US$430m in Singapore and Malaysia.

As in Chi Mei's case, the rationale for Taiwanese companies to move offshore is changing from defensive to expansionary, says Mr Daniel Chen, chief economist at Chinatrust Commercial Bank. In the past, relocation was a matter of corporate survival for export-oriented companies facing rising production costs at home. Now the objective is more likely to be to penetrate local markets.

The scale of companies moving overseas is also changing from small export-oriented manufacturing concerns to large companies, including listed and state-run companies. "The motivation for relocating internationally is different from a few years ago," Mr Chen says. "Before it was to take advantage of cheaper labour and land costs. Now it is to source raw materials and to target domestic markets."

A recent report released by Barings, the securities house, predicts that Taiwan will become the world's fourth biggest economy by the year 2010 – after the US, China and Japan – from the number 18 position in 1993. While this may be an ambitious forecast given the economic potential of unified Germany or a (possibly) unified Korea, clearly Taiwan's economic importance will rise significantly in coming years and most of that growth will come from outside – chiefly China.

The transfer of manufacturing overseas is not only fuelling Taiwan's economic development, it is also underpinning economic growth and trade in Asia. "Taiwan is playing the role of a smaller Japan in the region," says Mr Duncan Wooldridge, economist at Barings Taiwan. "Taiwanese foreign direct investment is stimulating economic growth and prosperity in the economies of south-east Asia. The transfer of Taiwanese capital and technical know-how is very beneficial to those countries, especially Vietnam and China."

Based in the southern city of Tainan, family-held Chi Mei is a relative latecomer to overseas investment. A handful of significant Taiwanese companies began investing in the US and Europe in the 1960s. A trickle of smaller companies going overseas in the early 1980s became a flood later in the decade, when entire industries – especially labour-intensive manufacturing such as shoes and toys – virtually stopped production in Taiwan and moved out en masse, mostly to China.

According to central bank figures, Taiwan exported a net US$33.5bn in capital between 1986 and 1993, fifth in the world. Of that, $23.3bn was in the form of foreign direct investment, making Taiwan the 12th biggest investor. However, economics officials believe that actual capital outflow may be far higher, although difficult to quantify.

But it is in Asia that Taiwanese investment has made the greatest impact. Up to the end of June this year, Taiwan companies had cumulative approved direct investments of US$24.36bn in China and US$23.98bn in south-east Asia, according to figures compiled by the host countries. Taiwan is the second largest foreign investor in China after Hong Kong. The biggest foreign investor in Vietnam and the second-biggest in Malaysia after Japan, it is one of the biggest investors in Thailand, the Philippines and Indonesia.

The exodus by smaller companies moving manufacturing operations overseas was sparked by a sharp rise in the value of the Taiwan dollar – to nearly double its earlier level – over a three-year period from 1987. At the same time, property prices jumped by four times and the share price index on the domestic stock market quintupled. Under such conditions of rampant inflation, the costs of running factories in Taiwan became prohibitive for many industries.

For political reasons, the government is apprehensive about fast-rising levels of Taiwanese investment in China. The fear is that the more reliant Taiwan's economy becomes on China, the greater the leverage that Beijing will have with which to wrest concessions from Taipei. China regards Taiwan as a renegade province and seeks reunification, but Taiwan is wary and wishes to delay any union until some unspecified date in the distant future.

As a counterweight to investment in China, Taipei encourages Taiwanese companies to direct investments toward south-east Asia in order to diversify risks from China. In part due to government policy and in part due to natural inclination, companies are in fact investing large amounts in the countries of Association of South-East Asian Nations.

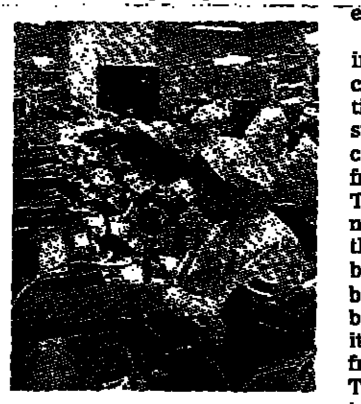
Vietnam, a newcomer to Asean, will perhaps be the biggest beneficiary of Taiwanese investment – not in absolute dollar terms but in terms of impact, predicts Mr Wooldridge of Barings. "The two countries have complementary strategic interests in that they both view China as the aggressor, and the economic synergy is strong too," he says. Taiwanese businesses run by both the private sector and the ruling Nationalist party established an early foothold in Vietnam and Taiwan is the largest foreign investor in the country.

Despite qualms over investing in China, ranging from cross-strait tensions to corruption to political and economic stability, both government officials and business leaders freely admit that the future of Taiwan's industry and economic prosperity lies across the Taiwan strait. "There will be political confrontations between Taipei and Beijing, but these will not result in military conflict," says Mr Chen from Chinatrust. "The major Taiwanese companies investing in China are quite optimistic about long-term prospects."

Investment in south-east Asian countries
Figures in $m, as of June 30 1995

Country	Amount	Ranking*
Thailand	5,410.72	4
Malaysia	7,416.94	2
Philippines	738.55	3
Indonesia	7,789.20	5
Vietnam	2,630.05	1
China	24,357.00	2
TOTAL	48,342.46	-

* Taiwan's rank among investing countries. Sources: Thailand Board of Investment, Malaysia Industrial Development Authority, Philippines Board of Investment, BKPM Indonesia, Vietnam State Committee for Co-operation and Investment, China Economic News, mainland China



Assembling integrated circuits

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■ **FINANCE:** By Bethan Hutton

Sprinter must wade through treacle

Are the island's plans to become the region's third financial centre too ambitious?

For a small island, Taiwan has always had big ideas. The government's current grand project is to turn Taiwan into a regional financial centre, as part of a wider plan to become a regional operations centre for shipping, airfreight, media and so on.

It is a fine ambition, but is it feasible? The region already has two international-standard financial centres in Singapore and Hong Kong; some doubt whether there is really a role for another. Taiwan has no record in international finance; indeed, until a few years ago, its markets were closed and its banking system heavily protected. Of course, Taiwan does have some advantages: "It has everything a financial centre needs – it has more than some centres already have," says one banker in Taipei.

"It has a very solid and vibrant industrial base. It has a population of 21m intelligent people prepared to be wise with their money. It has a democratic system, and a government which has shown itself to be stable. It has got the second highest foreign reserve levels in the world. It has a government which is genuinely committed to establishing a financial centre."

But he adds: "What it seems to lack is the will to blow away those bureaucratic cobwebs and really allow a financial centre to flourish, and it also seems to lack a rationale for becoming a financial centre. Why does Taiwan need to be a financial centre? For whose benefit?"

Another foreign banker admits: "Many of us are sceptical about the prospects." However, he adds: "But it is a useful ambition. It provides a rhetorical framework – if you want to be a regional financial centre, here are some things you should do."

The government's commitment to the idea has been clear in the four years since it was announced; liberalisation programmes were under way even before that. But the pace of change is slow – frustratingly so, say both domestic and foreign bankers.

The Bank of Taiwan in Taipei — David Hayes

"Taiwan has a model for managing change," says Mr Christian Murck, managing director of Chemical Bank in Taiwan. "You do it one tiny step at a time, incrementally. You try to manage it so that no one step shakes up anybody."

The cumulative effects of almost a decade of reform are quite significant, though. "There is no doubt about it, things have changed," says Mr Eli Hong, executive vice-president of Taipei Business Bank. Foreign exchange controls have been relaxed, 17 new banks have been licensed, foreigners have been allowed into the stock market, foreign banks have been put on an almost equal footing with domestic banks. A derivatives exchange is due to be set up in the next year or two, and the ban on individual foreign investors is soon to be lifted.

But the Taiwan financial authorities have not yet adopted the real free market attitude that everything is allowed unless expressly forbidden. Instead, specific permission has to be sought for each new product or area of business. And by the time permission has been granted, the competition is usually gearing up to offer the same thing.

New products are a grey area, says Mr Hong, and the cause for frequent arguments with the authorities. "But it is getting better all the time," he adds.

Another gripe is the limit on expansion. Currently, banks are normally allowed to open five branches a year, unless the regulators find a specific reason not to allow them. This is not a problem for the established banks, but it frustrates the new wave of banks set up three years ago. If they are only able to expand at the rate of five branches a year, it will take them a decade to achieve real economies of scale.

On the other hand, more rapid expansion could be difficult anyway: new branches need new staff, at least some of whom must have appropriate qualifications and experience, and they are hard to find in Taiwan. "There is a clear shortage of people, especially at the middle and higher levels," says Mr Hong. Even without the limit on new branches, this could put a brake on banks' expansion.

If Taiwan is to become an international centre, it will need to lighten not just financial regulations. Immigration rules, for example, also need to become more user-friendly.

At the moment, most expatriates working in Taiwan make short trips to Hong Kong, Singapore or Japan six times a year. This is because even long-term workers often have only 60-day visitor visas. It is theoretically possible to get a resident visa, and a few expatriates do have the patience and the paperwork to jump through all the necessary hoops to get one, but the majority still baulk at the bureaucracy, and resign themselves to frequent short "holidays" in Hong Kong, paid for by their employers.

The immigration rules were designed to deter low-paid, unskilled labourers from south-east Asia, but Taiwan will have to find a way to let in the highly-skilled professionals from around the world that both foreign and domestic institutions need.

"What is the most important thing for an international financial centre? People. We need people not only in the industry, but also in the government, who need to have a very solid understanding of how a modern financial system is run," says Mr Hong.

One senior foreign banker says the most serious obstacle to the grand project is the entire culture. "The Chinese have one of the oldest civilisations in the world, and also one of the oldest bureaucracies in the world. In Taiwan, that bureaucracy, which has at least 5,000 years' history, has been overlaid with Japanese bureaucracy from 50 years of colonial rule."

Even though the current orthodoxy is pro-deregulation, underneath the bureaucratic attitudes remain the same, he says. "Everyone you speak to puts his hand on his heart and says how much he looks forward to liberalisation. But when those words are put into written form, and become the regulations to enable liberalisation to proceed, at some stage they are coated in a web of regulation which means that in fact liberalisation is slowed down to the pace of a sprinter wading through treacle."

There is no official timetable for when Taiwan will emerge from its chrysalis as a fully-fledged international financial centre, but one senior official says that at the very latest, full liberalisation should have been achieved by 2010. That may sound a long way off, but it is still an ambitious target.

Mr Hong says: "I believe the government realises how much Taiwan is lagging behind other financial centres such as Singapore or Hong Kong. A financial centre needs infrastructure changes, a new mindset, a critical mass of talent with proper experience. You do not expect that to happen in three, four, five or even 10 years. The industry has been closed for so long; there are so many deep-rooted misconceptions. It takes a lot of time, and people should not underestimate the effort that is required."

PROFILE Day Linin, vice-minister of finance By Bethan Hutton

Cyclists can't go slow

A 27-year career as a bureaucrat is not the most likely of backgrounds for an ardent free marketeer and deregulator. But Mr Day Linin, a vice-minister of finance, is a key figure in Taiwan's attempts to open its markets to foreign investors. He sees himself as one of the ministry's most "aggressive" advocates of speedy liberalisation.

He describes the process of deregulation as like riding a bicycle: if you go too slowly, you are in danger of falling off. If his colleagues at the central bank had the final say in the matter, there is no doubt that, according to Mr Day's analogy, the financial reform process would soon be sprawling by the roadside.

"We have to go fast, or we will lose the chance," he insists. Taiwan is not the only place in the region with an eye on attracting international financial business, particularly given the uncertainty over the future of the current regional financial centre, Hong Kong. "We have so many competitors – Singapore, even Shanghai. It seems to me that at least by June 1997 we have to show our intentions," he says.

And it is not merely international prestige that he is worried about. "Our industries and manufacturing companies have to compete with those of other economies. Since in Taiwan we do not have many natural resources, if the financial costs cannot give our industries a competitive position, then they can hardly survive in the world economy."

A lawyer by training, Mr Day has degrees from three universities, including Harvard Law School. He says that one of the strongest influences on his thinking was his professor at Harvard, who had spent time on the US Securities and Exchange Commission. But while he is a convert to free market ideology, Mr Day is not a blind believer in western solutions to Asian problems.

His office gives a hint to his character: it is dominated by Chinese-style paintings and carvings; the only sign of western influence is a sprinkling of books on his shelves – John Train's *The New Money Masters*, for instance.

Mr Day has been involved with the reform process from the start – first at the bureau of monetary affairs, then as chairman of the Securities and Exchange Commission and, for the last nine months, closer to the heart of the bureaucracy in his position as vice-minister for administration.

In 1982, when Mr Day was deputy director-general of the bureau for monetary affairs, he and his colleagues drew up a three-step programme for the internationalisation of Taiwan's securities markets: the creation of securities trust companies, allowing foreign institutional investors into the market, and finally allowing foreign individuals to invest directly in Taiwan.

> To bounce a cheque used to be a crime but the rate did not go up when it ceased to be so

During his time at the bureau and the SEC, he oversaw the implementation of the first two steps, and now the final one is due to be realised by February next year. Mr Day also hopes that the remaining restrictions on foreign institutions may soon be removed, but there is opposition – notably from the central bank – to allowing completely free capital flows, for fear of the impact on exchange and interest rates.

His views on the stock market are illustrated by "Day's three principles", as the local media dubbed them after his first public comments as SEC chairman. The first is "let the market be the market" – in other words, regulators should remain neutral, and not step in just because the market is going through bad times or getting overheated. The second principle is an untranslatable Chinese pun, which suggests that there should be a core of blue chip stocks with stable holders. And thirdly, "let the rule of efficiency play", ie, there should be a free flow of information to the market, and any difficulty investors get into is then their own business.

He is pleased by the effect his reforms have had on the stock market, in particular the stabilising influence of institutional investors, but accepts that it will take a while to educate the millions of small investors about investing for value over the long term, rather than buying and selling daily on the latest rumours.

Mr Day's ministry is heir to one of the world's oldest bureaucracies. That has created attitudes which, he admits, do not adapt easily to the need to liberalise and deregulate. "The government is used to being regarded as a guardian god," he says. "They are trying to protect everybody. But now the question is, can we protect everybody if they cannot protect themselves?"

A few recent experiences encourage Mr Day to think that letting go is possible, even for Chinese bureaucrats. It used to be a criminal offence to bounce a cheque, but eventually the government accepted that the rate of bounced cheques was determined by the state of the economy, and so decriminalised it. The rate did not change at all – showing that if the government relaxes control, chaos does not necessarily follow.

Some of Mr Day's colleagues are not yet convinced, but he is determined not to let them hold back the bicycle on the road to deregulation. Mr Day – and a few like-minded colleagues – are pedalling as hard as they can.

■ **LOTTERIES:** By Laura Tyson

A gamble that has to pay off

The government wants revenue for social spending, without promoting gaming fever

While ordinary Taiwanese are revelling in new-found freedoms under the country's lately forged democracy, the government is plagued by the responsibilities.

The perils of populism are fast coming home to roost and the central and regional governments are left desperately scrambling to find the wherewithal to finance newly – some might say hastily – created social welfare programmes, including a national health insurance scheme, stipends for senior citizens and farmers and an expected national pension scheme.

Such programmes may be winners at the ballot box but they strain government budgets suffering from less-than-robust tax revenues. So financial planners have hit upon the seemingly perfect solution: lotteries.

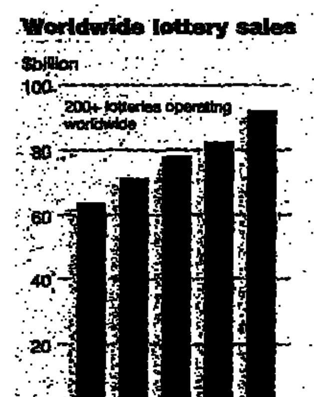
Taiwan's national legislature in June passed an act authorising local governments to issue lotteries and the finance ministry to regulate them. Three municipalities – the capital city of Taipei, the southern port city of Kaohsiung and the provincial government based in the central city of Taichung – are preparing to launch separate lotteries next year.

"We don't have any experience issuing lotteries, so it's difficult to estimate potential revenues," says Mr Chang Fan, finance director for the Kaohsiung city government. "But certainly it will be a big help to city finances."

Lotteries have proven a boon for state coffers around the world in recent years. The most recent success has been the UK national lottery launched in late 1994, far surpassing expectations to gross some £5bn a year.

But in Taiwan, eagerness to create a new and inexhaustible stream of funds is tempered by trepidation. The island has a history of unmitigated disasters with lotteries and a repeat performance would mean certain political suicide for any official who presided over the start-up of a lottery that turned sour.

Worldwide lottery sales



Source: La Fleur's 1995 World Lottery Almanac

"It has to be done perfectly this time," says Professor Liu Day-yang, an economist at the National Taiwan Institute of Technology and Taiwan's leading expert on gambling policy. "If something goes wrong again, there will never be a lottery in Taiwan. The market potential is there; the only question is whether the various government agencies can do a good job administering the lotteries."

Many Taiwanese have a fondness for gambling and bet on everything from mah-jong to golf. "Chinese people just love to gamble but they don't like to say so, especially government officials," says Prof Liu. But there is no legalised gambling on the island whatsoever, although the domestic stock market has earned something of a reputation as a casino for the small investors who account for 90 per cent of daily trading volume.

Not surprisingly however, illicit gaming activities flourish across the island, often controlled by organised crime.

Legal gambling in Taiwan has been confined to two lotteries. The Patriotic Lottery was founded in 1950 and tickets were sold by handicapped people on street corners. This scheme proceeded uneventfully until 1986, when an underground numbers game loosely based on the Patriotic Lottery swept the island into a gaming frenzy. "Da Jia Le" or "Everybody's Happy", often played in temples, was a potent cocktail consisting of a sophisticated numbers game spiced with Buddhism, Taoism, shamanism and superstition.

The government found itself at a loss to control the phenomenon whose revenues in a short time vastly surpassed the legal lottery, causing a surge in money supply growth – the subject of a 1987 study by the central bank – and threatening social stability. It was decided the only way to eradicate "Da Jia Le" was to shut down the Patriotic Lottery, which was done in 1987.

In 1990 the Taipei city government launched an instant lotto, but it was aborted after two months because it became wildly popular and thus difficult to control. Both experiences have left a negative image of lotteries in the minds of the public and many government officials.

Since the Da Jia Le debacle, parallel betting on Hong Kong's government-run "Mark Six" lotto has become extremely popular in Taiwan. Annual revenues are estimated at between US$2bn and US$8bn a year. Taiwan bookmakers create new variations by adding and dropping numbers, livening up the action.

"It's highly sophisticated and totally illegal," says Mr Brian Sheehan, Taiwan general manager for US-based GTECH, a leading international lottery operator. "There are serious integrity problems and the public is dissatisfied. For instance, if the winnings are very big, the bookies just split with the cash. Lotteries are very much a confidence product. This is a key issue for the government." GTECH is a partner in Camelot, the consortium which won the bid to run UK lottery.

Although surveys have shown that most of the public supports a resumption of legal lotteries, not everyone thinks lotteries are the best way to augment government finances. "I don't think it is a good idea," said Mr Hu Fo, politics professor at National Taiwan University. "It may cause undesirable social disruption and criminal activity."

It is hoped that legal lotteries will wipe out underground numbers games, but that is probably optimistic. For most lotteries, including the UK lottery, the prize payout is 50 per cent of gross revenues. In Taiwan it is likely to be closer to the maximum of 75 per cent in an effort to compete with parallel underground lotteries which usually pay out 90 per cent.

"Whoever operates a lottery in Taiwan has to be extremely careful," said Mr Sheehan. "The last thing the government here wants is to promote gaming fever."

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FOREIGN POLICY: By Laura Tyson

A game of musical chairs

Why Taiwan may succeed next time in gaining a seat at the UN General Assembly

Deng Xiaoping: his demise might have an impact on Taiwan

For Taiwan, life in the international arena is like a game of musical chairs. China calls the tune, while Taiwan is inevitably left standing forlornly when the music stops.

The country that the world pretends does not exist was roundly rebuffed for the third consecutive year last month in its appeal to gain a seat at the United Nations general assembly. But the world's states may find it more difficult to refuse Taiwan when the assembly convenes in the autumn.

In March 1996, Taiwanese voters will directly elect their president for the first time, marking the culmination of nearly a decade of political reforms which have transformed the island state from a military dictatorship into a thriving democracy. Bolstered by a popular mandate, the new president may be emboldened to make fresh initiatives in the area of foreign policy.

Support for Taiwan's cause has been rising slowly but began to gain momentum when the Republican party, a strong backer of Taiwan, wrested control of the US Congress a year ago. Once the presidential elections have taken place, it will become rather awkward for international organisations and especially for the industrialised western democracies that run them to deny Taiwan's 21m people a role and a voice on the world stage.

For cash-strapped organisations such as the UN and the World Bank, which is now considering large-scale debt forgiveness for poor countries, wealthy Taiwan's absence from membership has unfortunate practical consequences.

Taiwan has roughly US$100bn in foreign exchange reserves and a per capita gross national product expected to approach US$13,000 in 1995. Economic growth has been running at 6 to 7 per cent for the last few years. Taiwan is the world's 14th biggest trading nation and one of Asia's biggest economies.

Despite Taiwan's political and economic track record, it is nevertheless unlikely that there will be substantial improvements in the country's international standing unless there is an unexpected change of heart in Beijing. China apparently regards the cross-strait balance as an equation in which any gain by Taiwan represents a loss for China. No major country is willing to risk China's wrath to back Taiwan's entry into international organisations or – still at the risk of even more anathema – diplomatically recognise Taipei.

Just 30 countries – most of them tiny – grant formal diplomatic recognition to Taiwan. The largest of these is that former international pariah South Africa. China, which regards the island as a rebel-held province eventually to be brought back into the fold of the motherland, forces countries to choose between recognising Beijing or Taipei.

Taipei, as the Republic of China, occupied China's seat in the UN until 1971, when the organisation switched recognition to Beijing. Most countries followed suit. After the US severed ties with Taipei in 1979 to establish relations with Beijing, Taiwan fell under a shroud of isolation and many Taiwanese, fearing for their future, decided to emigrate overseas.

Beijing is increasingly alarmed at what it perceives as Taiwan's inexorable move toward nationhood and formalisation of nearly five decades of *de facto* independence. To prevent the island from openly breaking away and abandoning the official goal of eventual reunification espoused by leaders on both sides of the Taiwan strait, China has stepped up its campaign of suppressing Taiwan's presence in the international community and bullying other countries into keeping ties with Taiwan at a low level.

For its part, Taiwan has become increasingly assertive, even aggressive, in its push for international recognition in the last two years, flaunting victories however minor and making the most of its defeats for the benefit of the domestic audience. The ruling party is under pressure to boost Taiwan's international stature.

In the current democratic environment elected officials are in a no-lose situation. If efforts to expand Taiwan's role succeed, they gain public support. If those efforts are thwarted by China, officials are blameless and even gain popular sympathy.

Certainly President Lee, the architect of the policy of so-called "pragmatic diplomacy", has profited from his relatively defiant stance toward Beijing. His approval rating in public opinion polls reached a high of 80 per cent after he made a landmark private trip to the US in June. Recent polls indicate that his public support has dipped only slightly and he is widely expected to win the presidential elections in March.

However, the visit to the US did have negative consequences. It enraged Beijing and plunged Sino-US ties to the lowest level since the two powers established diplomatic relations. China embarked on a campaign of intimidation in the hopes of scaring Taiwanese into turning against their popular president and throwing support behind pro-reunification political figures. Beijing suspended the arm's length political dialogue between the two sides which began in April 1993, abandoned talk of friendship and conducted two series of missile tests in July and August just 85 miles north of Taiwan.

Taiwan's next president must tread a fine line between mollifying a sometimes capricious China and asserting Taiwan's right to exist. He must also meet his countrymen's aspirations for membership of world bodies. However, at the same time, China may be tempted to use the Taiwan issue as a pawn in internal power struggles over leadership during the post-Deng transition period.

PROFILE Chi Mei Industrial Corporation

The cultural mission of Mr Hsu

Tycoon Hsu Wen-lung has a dream: he wants to create a "Taiwanese Smithsonian".

The notion of single-handedly establishing a museum along the lines of one of the US's premier repositories of art and culture may seem ambitious. But the 67-year-old chairman and founder of Chi Mei Industrial Corporation, one of Taiwan's largest petrochemical companies, has dedicated himself to the endeavour.

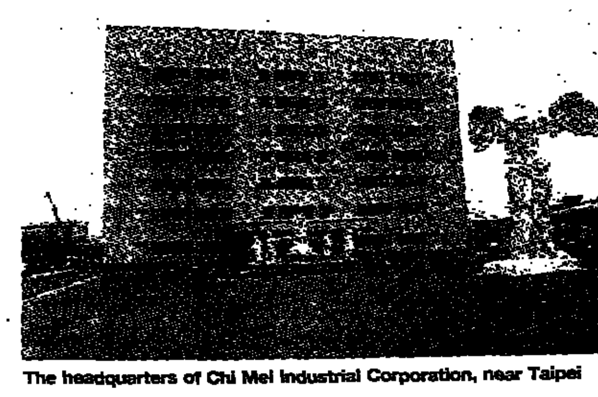
"I have always had a strong interest in art," Mr Hsu said in an interview at his company's headquarters outside the southern Taiwanese city of Tainan. "After I became successful I thought, where is the best place to spend money? I believe it is on things with lasting cultural value. So long as Chi Mei is making money, we will continue to collect art and give scholarships to poor kids to study art and music."

In a country in which philanthropy is relatively rare, the soft-spoken, extremely low-profile Mr Hsu is an anomaly among Taiwan industrialists.

He may be slightly ahead of his time. Having amassed Taiwan's largest collection of western art, Mr Hsu has been frustrated for years in efforts to persuade the government to donate a site so that he can pursue his vision of a museum complex including a concert hall and a library.

One realises that Chi Mei is not a typical Taiwanese company on arriving at the plant, located in an industrial zone with a betel-nut stand and sugar cane fields across the street. Four neoclassical white marble statues, representing the four seasons, grace the front lawn of Chi Mei's headquarters building against a backdrop of the tanks and pipes of a petrochemical complex. Inside, paintings and statues are liberally displayed in elevator lobbies, halls and offices.

Born into a modest Tainan family, Mr Hu studied machinery at high school before founding Chi Mei 36 years ago. Entirely family-held, Chi Mei is the world's largest producer of ABS, a petrochemical material used to make various types of hard plastics for everything from casings for electronics goods to clear dishware to headlamp covers for cars. These days, Mr Hsu spends much of his time sea-fishing, playing the violin and painting. He generally goes into the office one day a week.



The headquarters of Chi Mei Industrial Corporation, near Taipei

Mr Hsu wanted to study art as a child but could not afford it, so he decided to set up a fund to give financial assistance to aspiring artists and musicians. He sets aside 10 per cent of profits each year from his company to contribute to the Chi Mei Culture Foundation which he established in 1977. The company is forecast to make US$150m profits in 1995 on revenues of US$1.5bn, so the foundation will receive US$15m this year for scholarships and art purchases.

An avid collector of western art, Mr Hsu decided to turn his collection into a museum. In 1992 the Chi Mei museum opened to the public. So far he has spent nearly US$60m on the collection which is growing so quickly that less than a third of the pieces can be displayed at a time. The pieces on display are crammed into two low-ceilinged floors in Chi Mei's headquarters building. No admission is charged to the 3,000 visitors a week.

Mr Hsu personally chooses all the pieces in the collection from selections culled by several agents overseas working full-time. He does buy the occasional oriental artwork, but decided to focus on western art, in part because there was no way to compete with the National Palace Museum in Taipei, where the vast amount of Chinese art which the Nationalists spirited away from mainland China in the late 1940s is stored.

But he also has a mission to expose Taiwanese, especially children, to western culture. "We Chinese have a bad habit," he says. "We believe that our country is the centre of the universe and our culture is the greatest. We tend to look down on cultures other than our own. I decided to collect western art because I wanted to educate Taiwanese people that western culture and art are also great."

He also wants to encourage young people to explore their interests in art and music, areas traditionally given short shrift in Taiwan's education system which emphasises rote memorisation. "Taiwanese children are good at maths and science, but their creative abilities are undeveloped," he says. "The problem is the education system, the social environment."

The museum contains numerous pieces of western sculpture and art dating from the Renaissance to the 20th century, in media ranging from marble, bronze, terra-cotta, oil, water colours and drawings. There is a natural history wing. Also on display are extensive, separate collections of antique arms and armaments and musical instruments. Among these are "four or five" Stradivarius violins which are lent out free of charge to Taiwanese performing violinists.

Perhaps the most famous of the works in the collection is "The Message", a turn-of-the-century painting by British artist Thomas Cooper Gotch. When Chi Mei bought the painting a few years ago, the fact that it would be taken outside the UK created something of a stir.

Mr Hsu has given up on hopes of co-operating with the government to establish a proper cultural centre to house the museum. Several potential sites, including a colonial-era municipal building in downtown Tainan, have fallen through. With Taiwan's exorbitant land prices, state-owned Taiwan Sugar Corporation, the country's largest landholder, is reluctant to part with a few nearby hectares. Tainan city officials plan to develop the area around the old municipal building into a business district.

"Of course we are disappointed, but we realise they have difficulties," Mr Hsu says, philosophically. He is now thinking of converting an old factory building on his company property into a temporary museum until more fitting surroundings can be found.

Laura Tyson

ELECTRONICS: By Bethan Hutton

Computer demand: no slowdown signs

The industry is growing so fast that new outlets for the new capacity may not be a problem

As the world's largest producer of monitors, keyboards, motherboards and mice, and second largest maker of notebook PCs, Taiwan has been well-placed to take advantage of the world boom in personal computers. It also holds sway in the field of plastic casings: Taiwan is the world's fourth largest producer of integrated circuits.

The industry has been growing at an astounding rate. In 1994, semiconductor production grew 65 per cent year-on-year, and electronics production grew 27 per cent. Investment is running at equally high levels: substantial amounts of new semiconductor capacity are due to come on line in the next two or three years. A total of 14 new IC plants are planned or under construction by Taiwanese companies, making a total investment of more than US$14bn.

In other circumstances, market analysts would be predicting a rapid collapse to follow the current boom, but this time some are still positive, saying that the growth in demand for computers shows no sign of slowing down. New markets – such as developing parts of Asia – may open up in the next few years, and new applications are constantly being invented for semiconductors, so finding outlets to absorb the new capacity may not be a problem.

Although Taiwan is becoming a powerful player in the world of electronics, it still has not found a place at the cutting edge of technology. Most companies are happy to follow trends set elsewhere in the world, acquire existing technology and produce it more cheaply for the mass market.

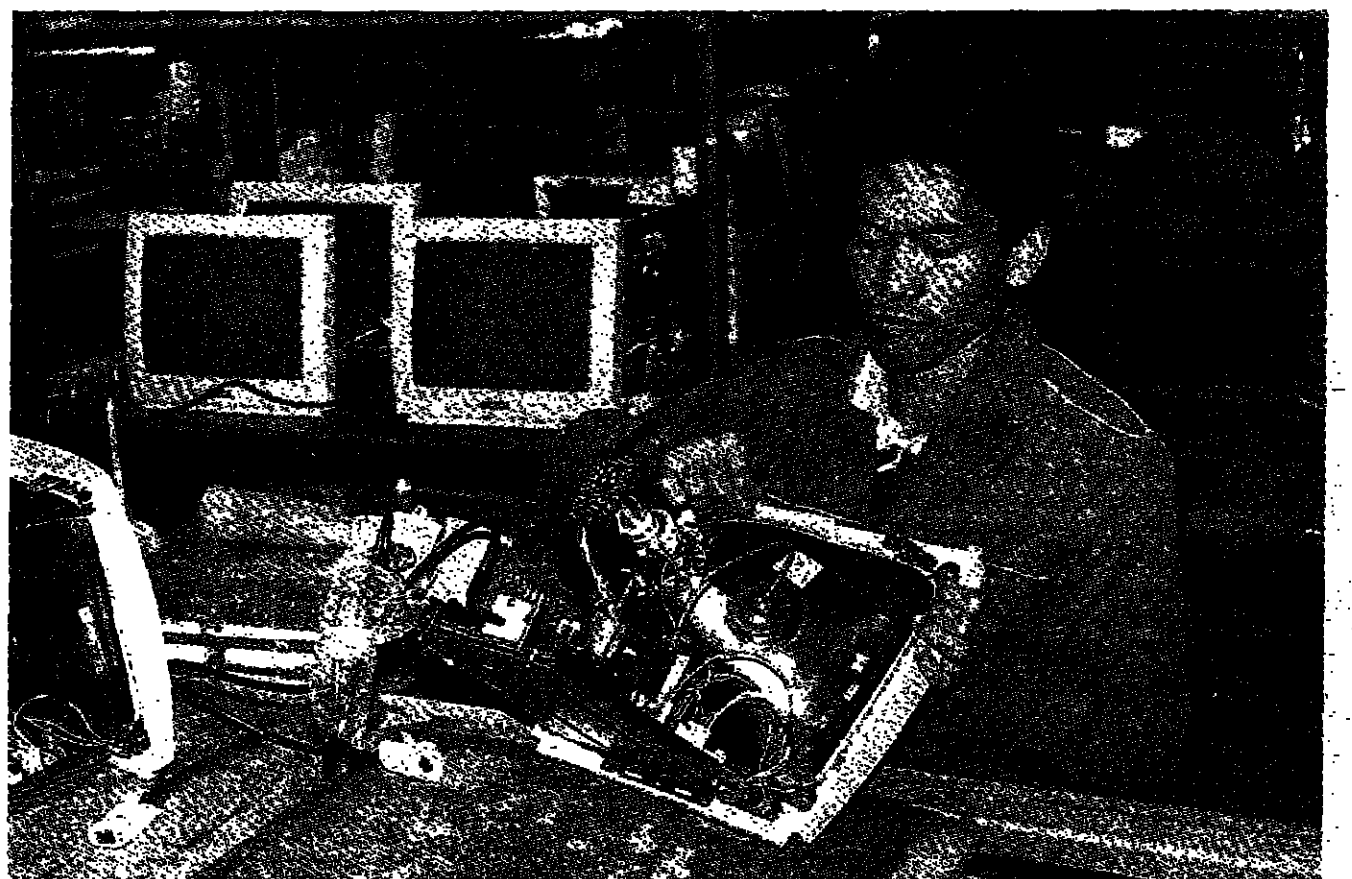
The lack of local technology can sometimes leave Taiwanese companies vulnerable to shortages of key components and materials, and fluctuations in currencies. Many essential components – silicon wafers, semiconductor production equipment, LCDs, cathode ray tubes – are imported from Japan, so when the yen goes through a period of excessive strength, Taiwan's manufacturers face pressure on costs.

Taiwan is only just over 16 per cent self-sufficient in semiconductors, even though it is the world's fourth largest producer. Even after all the new semiconductor capacity comes on stream in the next few years, Taiwan is still projected to be only 37 per cent self-sufficient by the year 2000.

The rapid growth of Taiwan's electronics industry is largely due to the foresight of the government, which more than 20 years ago established the Industrial Technology Research Institute. The ITRI has played a key role in developing the industry, including setting up the Hsinchu science park, outside Taipei, which is home to many of Taiwan's most advanced companies.

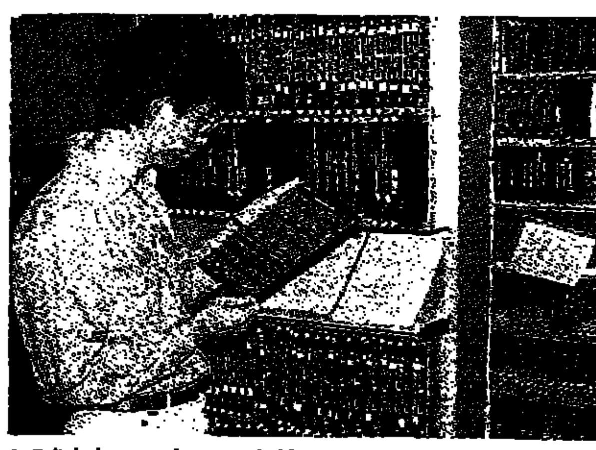
The government is continuing to support the industry, using tax incentives to help young companies, and in particular to encourage companies to do more research and development, so as to overcome the technology gap.

The emphasis on science and technology in Taiwan's education system has also helped the industry develop, by producing generations of young engineers well qualified to work in high-tech areas. Although many Taiwanese go to the US for postgraduate studies or work, most of these return home, better qualified, after a few years, even though wages and living standards in Taiwan are not up to American standards.



Making personal computers at Tatung in Taipei

David Hayes



A digital phone exchange switching board is tested at ITT Taisel, Taiwan

Some of those talented young engineers find jobs with Taiwan's big names – Acer, Twinhead, Mitac, FIC, United Microelectronics, Taiwan Semiconductor Manufacturing – but many join (or set up) one of the thousands of small, entrepreneurial companies, often family-owned, working in niche markets, on which Taiwan's electronics and IT industry is based.

This industry structure is both a help and a hindrance. The upside is that the companies know their markets well, and can move very fast to pick up new trends or change production lines. The downside is that many of them do not have the resources to carry out their own R&D, except in terms of manufacturing processes. Also, the family-based management structure can cause problems as the company matures and grows. The owners are fiercely independent, and are often reluctant to devolve power to middle-managers who are not family members, let alone consider selling or merging their company to create economies of scale.

Mr Matt Cleary, electronics analyst at Peregrine Securities in Taipei, says: "There is a consolidation under way within the PC industry, and this is going to take out a lot of the smaller players in Taiwan." They will not go willingly, being absorbed into larger companies, and so will eventually fail.

"In firms with 50 or fewer employees, there is frequently mismanagement," says Mr Cleary. "They have been making a lot of money, and the logical thing to do would be to pour money back into expansion – but they might not have the wherewithal within the family to do the management. This is just going to accelerate the process of those companies going out of business."

Acer is one of the few Taiwanese companies which has broke through this difficult stage to become a truly world-class computer company. "Acer has quite rightly been held up as an exemplary management team. Acer is a company that has taken its knocks and been able to survive, and has learnt from its mistakes. Consequently, it will be one of the top three or four PC makers in the world 10 years from now," predicts Mr Cleary.

It is also the first Taiwanese company to succeed in establishing its own brand name worldwide, rather than just producing computers and peripherals under other companies' names. Acer and other companies from Taiwan wanting to promote themselves in the world market have first to overcome the lingering image of products labelled "Made in Taiwan" as cheap and low quality, liable to fall apart on the first use,..aring.

Taiwan has come a long way since it first started exporting cheap plastics and textiles which often deserved their poor reputation, but because many more advanced Taiwanese products have been sold under US or Japanese brand names, consumer perceptions still lag the reality. Acer's success, however, is persuading more companies to market their own products, so the "Made in Taiwan" image may soon be associated more with affordable high-tech products than cheap and cheerful plastics and T-shirts.

ARTS

Television/Christopher Dunkley

'Twas a season to remember

Perhaps the coming digital revolution will mean the death of high quality television. Maybe the creeping progress of satellite and cable will lead to the atrophy of terrestrial broadcasting. Perhaps. But so far, in spite of all the Cassandra-like noises, some from this column, things seem to be holding up well. Indeed, if British television does change radically for the worse in the next 10 years we may look back and maintain that the golden age lasted well into the mid-1990s.

When you say this sort of thing to friends and acquaintances you find yourself up against the difference between television criticism and most other sorts: everybody has a strong opinion about television because everybody (well no, not you, of course, but everybody else) watches a lot. "Are we seeing the same stuff?" they shriek. "A golden age? Where do you find it? Jeremy Beadle and *Neighbours* and all those repeats – a golden age?" And yet in 2005, when Beadle and *Neighbours* each have a digital channel to themselves (the repeats already have several) wet-eyed nostalgia freaks will doubtless be crooning over the riches of the 1995 autumn season.

Just imagine, they will be telling their bored and disbelieving children, that in one and the same week we had *Pride And Prejudice*, *Cracker* and *Jake's Progress*. The Jane Austen was so good that a lot of us were watching the Saturday repeat as well as the Sunday original. You could hardly look for a greater contrast than Robbie Coltrane playing the police psychologist in *Cracker*, which was all about the murder of prostitutes, but it was so well-written and produced and acted that 15m people were watching. That was a time when previous *Cracker* episodes were winning prizes all over the place.

Jake's Progress was a different sort of drama series again: written by Alan Bleasdale, dealing with the contemporary world, very sharp, very funny, although bleak when you began to realise what it was telling you about the way so many people were leading their lives. *Jake's Progress* was the sort of drama – finite, the product of one mind, not written to any formula – that critics and theorists had been telling us for years would not be finding a place on television for much longer. Well, Channel 4 was still doing it in 1995 and if BBC2 had stopped it was very recently.

And it wasn't just drama, either. In that same week there was a terrifically good programme about the United Nations – well, almost as much about the secretary general Boutros Boutros Ghali, really. BBC2's *Guardians of Chaos* was good because the producer, Amanda Theunissen, allowed her reporter, Michael Ignatieff, to make it clear how he felt about this glad-handing African tour which Ghali was making. And director Tim Lambert made every shot count.

While Ghali flew from country to country, getting the red carpet treatment (there was a marvellously symbolic moment when we saw the red carpet blowing away after they had left), Ignatieff kept watching television reports of what was going on in Bosnia. You hardly needed Ignatieff to bring out the ghastly contrast between the royal progress in Africa and the total lack of progress in Bosnia, but his comments were always spot on and crucially he never succumbed and joined the PR throng.

Although that was one of the best, it was not the only excellent factual programme of the week. There was the sixth episode in the BBC's biggest documentary series, *People's Century*, which was showing the history of the last 100 years from the point of view of ordinary people. This was another example of the sort of series – huge, expensive, painstaking, learned, fascinating – which people had been saying for years was not made any more.

And the same channel, BBC2, also gave us the first of three documentaries made by the talented Molly Dineen, *In The Company Of Men*. It managed to be funny and sad and dangerously telling about a group of Welsh Guards stationed in a fortified police station on the Irish border.

All those were well publicised and widely discussed, but in the same week Channel 4 devoted the third of six successive Saturday nights to "Tribe Time", a season of programmes on what they called "modern sub-cultures" which received remarkably little attention. In this particular week the subject was "Tribes On Wheels", and although the quality of the offerings varied (*The Wild One* with Marlon Brando as a tearaway motorcyclist always was risible and is now ludicrous) some were worth waiting for until the small hours. *I Wanted To See Angels* was a mannered but piquant Russian motorcycling movie, and *Blood Brothers* was the best documentary I had ever seen about Hell's Angels (and I had seen a few) because its purpose was to understand rather than to preach or terrify.

So, wet-eyed parent, all pretty serious stuff, eh? Well no, best beloved, there was actually a lot of good funny stuff too. Some of us felt that the first programme in Channel 4's *Heroes Of Comedy* could have done with more of Tommy Cooper himself and less of the solemn comment from admirers, but when it came to Joyce Grenfell during the week in question you began to see that they were really trying for a proper biography and not just a clip show. It was very funny all the same. So was *Rory Bremner*. By 1995 he was showing up people such as Smith and Jones as decidedly trivial. His impressions were better than ever – Bremner as Michael Howard played by Frankie Howerd was superb – but it was his willingness to attack sacred cows that gave his show such an edge. In the autumn of 95, with every supermarket in the country suddenly stripped of cranberries by besotted fans, who else would have dared lay bare the commercialism of St Delia?

And if you were one of those who insisted that amusing triviality was really the essence of television, you, too, were well served. *Shooting Stars* was a "celebrity" game show on BBC2 in which Vic Reeves and Bob Mortimer, so bafflingly unfunny in previous series, suddenly took off and flew in a send-up of all previous game shows: "Gloria Estefan was educated at a convent run by an incredibly fat nun with a moustache, true or false? ... True ... George Dawes knows the scores ... Now, if we coo a dove will come down ..." *They Think It's All Over* was a similarly tongue-in-cheek sports quiz on BBC1 in which sporting expertise was less important than comedy. If any previous show required its competitors to wear blindfolds and identify sports personalities by touch I missed it.

Perhaps this is the last or the penultimate autumn season of such variety from the terrestrial broadcasters. Perhaps not. All you can honestly say at this stage is, so far, so good.

Ballet/Clement Crisp

Once more into the (Swan) Lake

The formula is simple: Tchaikovsky plus a title everyone knows. The result: a happy box office. Without wishing to appear too cynical – though after watching the decline of the balletic repertory over the past two decades, anyone is entitled to feel that matters have reached a pretty pass – I record that with his new *Alice in Wonderland* for English National Ballet, Derek Deane has followed the formula to the letter.

Southampton's audience, crammed enthusiastically to the rafters of the Mayflower Theatre on Friday night, is proof of his acumen. (On Saturday, at Covent Garden, Tchaikovsky was also the opening shot in the Royal Ballet's new season. Once more into the lake, dear friends, once more.)

The dictum "Never mind the quality, feel the receipts" was never more true than with ENB's crowd pleaser. Deane, underfunded for what his company does, and needing to keep his troupe alive in an artistic climate that freezes the unfamiliar, has done what he has done as well as he may. A big and serious new ballet would die the death of a thousand unsold tickets at every regional theatre. So we have *Alice*, which is not Carroll's *Alice* – a text to defeat any choreographer – but a staging that gives the public what it expects, which is Tchaikovskian tunes and the Mad Hatter. And Deane, whatever the compromises, knows that his company will not starve.

Deane's narrative follows *Alice* decently enough. There is the semblance of the characters, from White Rabbit to Frog Footman, and Sue Blane has realised them brilliantly in her costumes. There are two hours of gems from Tchaikovsky, set by Carl Davis, and enlivened (one *might* say) in orchestration to suit the drama. There is clever production – Deane ever resourceful – and Sue Blane's decors are no less clever in managing the dream illogicalities of the tale. (Alice's changes of size, the pool of tears, the rose-garden, admirably done.)

As with the Royal Ballet's nugatory *Beatrix Potter*, everything is as it should be for a popular success. Here is an alternative to *The Nutcracker* to delight adults who want to take the tots to a Christmas ballet, though I fear that this elaborate production will never fit on to the Festival Hall's grudging stage, which is ENB's customary Yuletide roost.

So why did I watch it with my heart in my boots? The cast, led by Alice Crawford's pretty heroine, work like demons. But Deane misses *Alice*'s poetic lucidity – owed to the Rev Mr Dodgson's mathematics – and, inevitably, the wonders of its language. As earlier *Alice* ballets have shown, the words ring in our ears, but not in the dance. We see a production concerned with externals, with characters who look like the Tenniel originals, in the proper locations. What we do not see is balletic sense, for all the liveliness of the cast. And will the public care? I doubt it.

*

The opening *Swan Lake* of the ballet season at Covent Garden on Saturday night was a vivacious affair. The first act was nearly a rave: had someone slipped Ecstasy to the assembled throng? Peasant gaiety was unrelenting, and rather too many characters were flapping and smirking as if trying to proposition a deaf-mute.

There was also an odd subtext to Prince Siegfried's behaviour in Zoltan Solymosi's reading. Not only does he tell his cadet chums, like Juliet to her Nurse, that his heart is elsewhere – can it be with his ghastly old sot of a tutor? – but he seems a man nervously unsure of his identity. Solymosi's over-eager manner suggests an impostor, a head waiter with delusions of grandeur perhaps. The first act trio was splendidly danced by Deborah Bull, Nicola Roberts and the soaring Errol Pickford. Joyously good.

Thereafter, things calmed down. Miyako Yoshida, newly arrived from Birmingham and replacing an injured Darcey Bussell, was a delicate, exact Odette and an Odile of serene virtuosity, and Solymosi was a prince among partners. Their passion was dutiful, their final plunge into the lake more like bathing than love in death.

Viktor Fedotov, whom we so admire with the Kirov Ballet, urged a taut account of Tchaikovsky from the orchestra. The company performance was strong, devoted. Some of the guests at the third act ball look shifty – the sort of people who would pay to dine with these royals – but Yolanda Sonnabend's designs make an hallucinatory setting for the tale. (Are the dancers trying to live up to them?) Be it gratefully noted that, in the centenary year of *Swan Lake*, the Royal Ballet's choreographic text is the nearest to the 1895 original, and fine. The elegiac last act is heart-rending.

Tamara

A vivacious affair: Deborah Bull in 'Swan Lake' at Covent Garden

Theatre/Ian Shuttleworth

Tudors without substance

Vanessa Ford's theatrical production company has in recent years been most visible in the field of "family" plays: adaptations of C.S. Lewis's Narnia books, seasonal presentations of *A Christmas Carol* and *Treasure Island*. Roy Marsden's production of Robert Bolt's second Tudor history play, *Vivat! Vivat! Regina*, seems to be imbued with a similar ethos – it is very pretty, played in full period rig against Poppy Mitchell's huge sliding tapestry backdrops, but it takes too many easy options.

This is not attributable to Bolt, although his script does contain the occasional clinker such as "You think life is a game and you're the only one allowed to cheat". Marsden, although he choreographs the play's intercutting well, works from a directorial palette containing few primary colours. In the opening scene, Barbara Flynn as Mary Stuart and Philip Grout as her secretary are carolled into a display of irksomely over-enunciated verse speaking, with the result that when their dialogue speeds up one is battered by a hailstorm of discrete syllables.

Raymond Platt is called upon to play David Rizzio as a pantomine Eyetie, and David Banks doubles as a similarly cartoonish Spanish ambassador to the English court and a Lord Bothwell so hearty that he all but slaps his thigh on every other line. Sean Scanlan, however, gets away with portraying John Knox as the kind of man Ian Paisley would have called a dangerous extremist and whose volume control goes no lower than 11.

The effect is to diffuse the dynamic at the core of the play, between Mary, Queen of Scots, and Elizabeth of England. The contention of these two women who never met, the differences and equally telling correspondences in their approaches to quality and their personal lives, have fascinated dramatists from Schiller onwards. Here, the balance in performance is tilted permanently towards the English camp. Elizabeth's counsellors Cecil and Walsingham (Barry Stanton and Richard Heffer) do not overplay their super-subtle stratagems, and Janet McTeer adroitly keeps the character of Queen Beth on line through moments of comedy and crisis.

Paradoxically, the production grows more potent and satisfying in the second act precisely when its scope narrows. With Mary's imprisonment in Sheffield Castle, the drama becomes one primarily of psychology rather than action, and Flynn is allowed to regain control of her characterisation with impressive results. But, instead of salvaging the evening, it simply seems like a different play.

The Mermaid has been cruelly underused for several years. Ford and Marsden will be doing a great service if they succeed in breathing new life into the Puddle Dock space, but I suspect they will need to offer more substantial fare than this to pull it off.

At the Mermaid Theatre, London EC4, until November 25 (0171 236-2211).

Music

Britten Songs

The Britten Songs is a series of nine recitals stretching into 1996, in which Britten's songs are complemented by the music he admired, from folk song and John Dowland to Francis Poulenc.

Britten and France was the theme of last week's programme, given by the baritone Simon Keenlyside and pianist Malcolm Matineau. In the company of Fauré, Debussy and Poulenc, Britten's cycle, *Songs and Proverbs of William Blake*, seemed decidedly grim. He wrote it in 1965 for Dietrich Fischer-Dieskau, who had not long since sung in the first performance of the War Requiem.

Seven brief settings of Proverb of Hell introduce six Songs of Experience, and the cycle ends with a dour, ambling setting of "Every Night and Every Morn" from Auguries of Innocence. Britten's harmonic colouring is in shades of grey, the vocal line mainly declaimed in steady note values, with the piano shadowing or descanting the voice while also punctuating it with faster figures.

In "The Fly", they take on a simple descriptive character, and the song's economy is arresting. Yet it took all the warmth of Fauré and the charm of Poulenc to alleviate the prevailing gloom of Britten's work.

Poulenc's earliest songs, the six aphoristic Apollinaire settings of *Le Bestiaire*, prefaced a group of favourite songs by Fauré – "Spleen", "Mandoline", "Lydia", "Le secret", and the less distinctive, early "Rêve d'amour", a flowery, salonish setting of Victor Hugo. Keenlyside's beautiful voice was a shade heavy and honeyed for the particular flavour of these lovely songs; in Fauré I like something grainier, drier, but that is a matter of taste and there was little Keenlyside could do about it.

Debussy's *Trois Ballades de François Villon*, the first of which unlocks dramatic potential and the second brings towards its end a touch of urgency, suited him well, though the last song, which mocks the chattering women of Paris, lacked that final sardonic edge. They were enough, anyway, to suggest what a splendid Pelléas this singer must be.

The recital ended with Poulenc's cycle setting love poems by Paul Eluard, *Tel jour telle nuit*. The nine songs are quite serious, passionate, and far from the scatty, entertaining Poulenc of so much piano and wind music. In the sixth song, "Une Herbe Pauvre", Poulenc distills a measured simplicity which strikes deep and true. In the final song the vocal line expands emotively, pushing the baritone into the tenor register, and Keenlyside sustained it strongly.

Adrian Jack

Next recital in the series: Britten and Folksong, Britten and Dowland, November 14, 6pm and 8pm Wigmore Hall (0171-935 2141).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

GALLERIES
Rijksmuseum Tel: (020) 673 2121
● The Portrait: drawings, prints and photos spanning some 500 years. Artists include Van Gogh, Rembrandt and Gaugin; to Oct 29
Stedelijk Tel: (020) 573 2911
● 100 Years: three exhibitions to celebrate 100 years of the Stedelijk. On show is art from the Regnault Collection which includes the likes of Kandinsky, Chagall and Chirico plus specially commissioned work for the centenary; to Oct 29
OPERA/BALLET
Het Muziektheater Tel: (020) 551 8922
● Moses and Aaron: by Schoenberg. A new production directed by Peter Stein and conducted by Pierre Boulez. Soloists include David Pittman-Jennings as Moses and Chris Merritt as Aaron; 8pm; Oct 25, 28

BALTIMORE

THEATRE
Center Stage Tel: (410) 685 3200
● Don Juan: by Moliere in a translation by Christopher Hampton and directed by Irene Lewis; 8pm; to Nov 5

FRANKFURT

CONCERTS
Alte Oper Tel: (069) 134 0400
● City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts Beethoven's "Symphony No.1" and "Symphony No.3"; 8pm; Oct 31
● State Orchestra of Dresden: Giuseppe Sinopoli conducts Busoni, Schoenberg, and Tchaikovsky; 8pm; Oct 30

LONDON

CONCERTS
Royal Festival Hall Tel: (0171) 928 8800
● The London Philharmonic: with mezzo-soprano Jennifer Larmore, bass José van Dam and the London Philharmonic Choir. Roger Norrington conducts Berlioz's "The Damnation of Faust"; 7.30pm; Oct 25
Royal Opera House Tel: (0171) 304 4000
● Manon: directed and choreographed by Kenneth Macmillan to the music of Massenet and conducted by Barry Wordsworth; 7.30pm; Oct 27, 30; Nov 1, 2
● Swan Lake: choreographed by Marius Petipa and Lev Ivanov. Vikotor Fedotov/Anthony Twiner/ Barry Wordsworth conducts Tchaikovsky; 7.30pm; Oct 25, 26; Nov 3, 4 (7pm)
GALLERIES
Hayward Tel: (0171) 261 0127
● Art and Power: examination of the relationship between art and politics in thirties and forties Europe where culture became an arena for the struggle between Communism and Fascism; from Oct 28 to Jan 21
Serpentine Tel: (0171) 402 0343
● Big City. Artists from Africa: sculptures, drawings, images and objects by contemporary artists from several African countries; to Nov 5
OPERA/BALLET
Royal Opera House Tel: (0171) 304 4000
● Götterdämmerung: by Wagner. A new production directed by Richard Jones and conducted by Bernard Haitink. Soloists include Deborah Polaski, Vivian Tierney, Jane Henschel and Judith Howarth; 4.30pm; Oct 28 (4pm), 31
THEATRE
Donmar Warehouse Tel: (0171) 369 1732
● The Glass Menagerie: by Tennessee Williams, directed by Sam Mendes. Cast includes Zöe Wanamaker and Claire Skinner; 8pm; to Nov 5
National, Lyttelton Tel: (0171) 928 2252
● La Grande Magia: by Edouardo de Filippo in a translation by Carlo Ardito. Richard Eyre directs Alan Howard and Bernard Cribbins in de Filippo's comedy; 7.30pm; Oct 25 (2.15pm), 30, 31; Nov 1 (2.15pm), 2

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion Tel: (213) 365 3500
● Los Angeles Philharmonic: with violinist Joshua Bell. Franz Welser Möst conducts Hindemith, Sibelius and Shostakovich; 8pm; Oct 26, 27, 28 (2pm), 29 (2.30pm)

MADRID

GALLERIES
Fundación Arte y Technologica Tel: (041) 522 6645
● Incorporeo: installation by Daniel Conogar; to Oct 29
Prado Tel: (91) 420 28 36
● Francisco Bayeu (1734-1795): 72 sketches by the 18th century artist who was responsible for many of the frescos in the Royal Palace of Madrid; to Oct 29

MUNICH

GALLERIES
Kunsthalle der Hypo-Kulturstiftung Tel: (089) 22 44 12
● Felix Vallotton: retrospective of the Swiss-born Nabis group member; to Nov 5
OPERA/BALLET
Bayerische Staatsoper Tel: (089) 22 13 16
● Anna Bolena: by Donizetti. Conducted by Fabio Luisi and produced by Jonathan Miller. The cast includes Edita Gruberova, Vesselina Kasarova, Anne Salvan and Roberto Scandiuzzi; 7pm; Oct 30; Nov 2

NEW YORK

CONCERTS
Carnegie Hall Tel: (212) 247 7800
● BBC Symphony Orchestra: with violinist Nadja Salerno-Sonnenberg. Andrew Davis conducts Carter, Glazunov and Brahms; 8pm; Oct 25
● Pittsburgh Symphony Orchestra: with flutist James Galway. Lorin Maazel conducts Gould, Mercandate, Maazel and Bartok; 8pm; Oct 27
● Pittsburgh Symphony Orchestra: concert performance of Wagner's "Tristan and Isolde" with conducted by Lorin Maazel. Soloists include Carol Yahr, Heinz Kruse amd Falk Struckmann; 8pm; Oct 28
GALLERIES
Guggenheim Soho Tel: (212) 423 3500
● Dieter Appelt: retrospective with more than 60 paintings and sculptures; to Nov 5

PARIS

GALLERIES
Centre Georges Pompidou Tel: (1) 42 77 12 33
● Hybert, Quardona and Roudenko-Bertin: running in conjunction with "Feminine and Masculine", three artists of different styles produce works that demonstrate the relationship between sex, the body and sexual differences; from Oct 25 to Jan 1
Centre National de la Photographie Tel: (1) 53 76 12 31
● Martin Parr: British photographer uses motorists and tourism for his inspiration; to Oct 30
Galerie Schmit Tel: (1) 42 60 36 36
● "La Femme": from Corot to Chagall. 60 paintings dating from 1824-1949 by artists such a Degas, Gaugin, Picasso and Renoir; to Feb 28
OPERA/BALLET
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Eugène Onégin: by Tchakovsky. A new production produced by Willy Decker and conducted by Alexander Anissimov. Soloists include Gerlinde Lorenz, Solveig Kringelborn/Galina Gorchakova, Anthony Michaels-Moore; 7.30pm; Nov 4
● Les Variations D'Ulysee: a new production choreographed by Jean-Claude Gallotta to the music of Jean-Pierre Drouet; 7.30pm; Oct 26, 29 (3pm)

VIENNA

OPERA/BALLET
Wiener Kammeroper Tel: (1) 512 0100
● The Turn of the Screw: by Britten. Conducted by Edgar Seipenbusch/Joan Grimalt. Soloists include Mark Duffin, Olga Schalaewa and Felix Purzner/Ingo Petersen; 7.30pm; Oct 25, 28, 30; Nov 1, 4

WASHINGTON

CONCERTS
Kennedy Center Tel: (202) 467 4600
● National Symphony Orchestra: Sir Neville Marriner conducts Bartók, Mozart, Nelson and Beethoven; 8.30pm; Oct 26, 27, 28
● Pittsburgh Symphony Orchestra: with violinist Hilary Hahn. Lorin Maazel conducts Mendelssohn and Bartók; 8pm; Oct 25
● Pittsburgh Symphony Orchestra: with pianist Hae-Jung Kim. Alexander Dmitriev conducts Tchaikovsky's "Piano Concerto" and "Symphony No.4"; 8.30pm; Oct 30
THEATRE
Ford's Theater Tel: (202) 347 4833
● Elmer Gantry: Michael Maggio directs this revival of the Pulitzer Prize winning novel by Sinclair Lewis with libretto by John Bishop and music by Mel Marvin; 7.30pm; to Oct 29

WORLD SERVICE
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European Money Wheel
Nonstop live coverage until 14.00 of European business and the financial markets

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Financial Times Business Tonight

Midnight
Financial Times Business Tonight

Edward Mortimer

A duty to meddle

It is too easy for member states to blame the UN for failures

In a remarkable film shown on BBC television last week, Michael Ignatieff followed Boutros Boutros-Ghali, the UN secretary-general, on a tour of central Africa.

Ignatieff has reported extensively on the horrors of former Yugoslavia. Yet it was clear nothing had prepared him for the evidence and aftermath of last year's genocide in Rwanda. In a school where hundreds of bodies had been left to rot, he watched Boutros-Ghali trying lamely to convince the survivors that the UN would bring the culprits to justice.

Later he visited a prison where hundreds of the alleged culprits are being held by a state which lacks the resources to put them on trial – most of Rwanda's judges were among the victims. These prisoners too place their hopes of "justice" in the UN.

Ignatieff referred to 1m deaths. That figure is too high, according to Alain Destexhe, former secretary-general of Médecins sans Frontières, the international medical charity, but "half a million is a more than safe estimate".

Destexhe, a veteran of many humanitarian emergencies and no stranger to moral indignation, believes what happened in Rwanda is unique since 1945 in deserving the name of genocide: an organised, systematic attempt to exterminate an entire ethnic group. Yet the world community failed to recognise it as such. The US government prevented both its officials and the UN Security Council from using the word "genocide", apparently because it would trigger an obligation to intervene under the Convention on the Prevention and Punishment of the Crime of Genocide, a legal instrument ratified by 120 states.

Only days before the genocide began in Rwanda the US had completed its withdrawal from Somalia, where 30 American soldiers had been killed – "fewer than the number of New York taxi drivers murdered every year," as Destexhe points out. The two countries had almost nothing in common, except being on the same continent, but the Clinton administration was determined not get involved in another African conflict, especially under UN auspices.

On May 17, nearly six weeks after the massacre began, the Security Council decided to establish "secure humanitarian areas" to provide security for relief operations, and to expand the UN "assistance mission". The latter had been cut from 2,500 to 270 people after 10 of its members were killed, along with the Rwandan prime minister they were supposed to be protecting. Now it was to be boosted to 5,500, who however would be allowed to use force only in self-defence. A further six weeks elapsed before a single one of these soldiers appeared on the ground. As Boutros-Ghali later complained: "Not one of the 19 governments that at that time had undertaken to have troops on standby agreed to contribute."

The most effective interventions have been the work of one state acting on its own authority

Meanwhile the French government decided to intervene unilaterally, with the Security Council's blessing, and occupied the south-west of the country. By then the government responsible for the genocide was close to being defeated by the Tutsi-led Rwandan Patriotic Front.

France's action undoubtedly saved thousands of lives – showing what could have been achieved by an earlier intervention throughout the country – but it also covered the retreat of the government forces, among whom were most of the organisers and perpetrators of the genocide. Many regrouped in refugee camps in Zaire where, fed by a massive international relief operation, they have been preparing to renew the war, and no doubt the genocide as well.

Alain Destexhe had long believed that governments were funding his and other humanitarian organisations as a substitute for meeting their own political obligations. The Rwanda experience, which he describes in an angry and eloquent book,* finally convinced him of "the limits of humanitarian action". He has now left the charity and gone into Belgian politics.

As both he and Ignatieff have understood, blaming the UN is too easy. It is the member states, not the UN as an organisation, which have the power to intervene – and that power brings with it responsibility for the consequences if they fail to use it. Whether they intervene under the UN's aegis or not is a secondary issue. Most effective interventions in recent times – for instance those of India in East Pakistan (1971), Vietnam in Cambodia (1978), Tanzania in Uganda (1979), or the US in Grenada (1983) – have been the work of one state, usually a neighbour, acting on its own authority.

Such interventions are "humanitarian" in the sense that they serve a humanitarian purpose, even if they serve a national interest of the intervening state as well. But an effective military intervention cannot confine itself to purely humanitarian action in the sense of directly relieving suffering. It needs to be clearly political, involving the use of force to neutralise whoever or whatever is threatening the security of people.

If military forces are confined to protecting relief workers, or carrying out relief work themselves in a violent environment, they are condemned to an impossible mission, because it will never be clear how much force they are supposed to use. That error has been the root of the UN's "failure" in both Somalia and Bosnia, which has overshadowed all its successes elsewhere in the world, and so alienated the main troop-contributing countries that it is now no longer possible to raise a credible UN force, even for the prevention of genocide.

* *Rwanda and Genocide in the Twentieth Century, Pluto Press £7.95 paperback, £25.00 hardback.*

The German aerospace group's latest restructuring may not go far enough, says Wolfgang Münchau

All change at Dasa yet again

In its short history, Daimler-Benz Aerospace (Dasa), the hub of Germany's defence and aerospace industry, has carried out so many restructuring plans that it has become difficult to disentangle one from another. This week's announcement of 8,000 job losses was supposed to be part of a final restructuring to put Dasa on a secure footing and enable it to survive with a strong D-Mark.

However, the plan was not as drastic as anticipated. Earlier leaks suggested there would be as many as 15,000 job losses. Of the 8,000 eventually announced, 3,000 had already been planned and 1,000 will simply be "outsourced" through the sale of plants. Dasa's announcement also assumes an exchange rate of DM1.35 to the dollar, which leaves little room for manoeuvre given yesterday's rate of DM1.387.

The first question that arises from this programme is whether it will help the loss-making company achieve its aim to become profitable by 1997. Most financial analysts are sceptical, if only because of Dasa's unreliable record in the past for forecasting both the exchange rate and demand conditions in its own industry.

A further obstacle to the success of the restructuring is the poor performance of Fokker, the Dutch aircraft maker majority-owned by Dasa. Dasa's control over its Dutch sibling is limited, because the contractual relationship between the two allows Fokker management the final say in most strategic decisions, including the level of employment.

Dasa is locked in negotiations with the Dutch government about a refinancing package to secure Fokker's medium-term viability. But the Dutch government has so far proved reluctant to contribute "a substantial amount" in cash – a demand that Mr Manfred Bischoff, chief executive of Dasa, reiterated this week.

Nor has the German government shown much enthusiasm for supporting Dasa, beyond giving the company financial help through existing and proposed research and technology programmes.

It is not just Dasa's short-term profitability that is at stake. The recent financial history of Dasa has been so disappointing that German industrialists and politicians fear that the country's aerospace industry may be in terminal decline and may be impossible to rescue even with the most radical restructuring.

Dasa's latest announcement comes at a time of intense debate over Germany's industrial future. Daimler-Benz, Germany's largest company and owner of both Mercedes-Benz and Dasa, illustrates both the successes and failures of industrial policy.

In Mercedes-Benz, Daimler owns the most profitable European carmaker. Mercedes-Benz leads an industry that has a strong tradition in Germany, a plentiful supply of skilled workers and engineers, and a business well cushioned against adverse exchange rate movements by a strong domestic market.

In Dasa, Daimler-Benz owns the largest company in its sector in Germany. But defence and aerospace had little place in West Germany in the years immediately after the second world war.

By contrast, US aircraft makers have benefited not merely from strong domestic sales, but also from technological spin-offs from the defence industry.

British Aerospace, Dasa's UK competitor, may not profit from the large home market enjoyed by Boeing or McDonnell Douglas, but has already undertaken radical restructuring measures which are starting to bear fruit.

Dasa is involved with British Aerospace, along with Aérospatiale of France, in the manufacture of the Airbus aircraft. However, the UK and the French partners have the technological edge in the division of work: Aérospatiale produces the cockpit, technologically the most challenging part of an aircraft; British Aerospace produces the wings; Dasa produces the fuselage.

Dasa came into being in the late 1980s with the strong support of the German government, which wanted a big company around which to build a modern aerospace industry. It was formed after a series of acquisitions by Daimler-Benz, which included MTU, an aero and diesel engine manufacturer, MBB, the aircraft manufacturer and German partner in the European Airbus consortium, Dornier, a producer of regional aircraft, and later Fokker.

Dasa was essentially a grand attempt to create industrial expertise from scratch, based on the assumption that a unified Germany needed a strong aircraft and defence industry.

Mercedes-Benz, by contrast, has a strong tradition in its industry. In a big advertising campaign, Mercedes now portrays itself as a company of extreme self-confidence, bordering on arrogance: "In 1886 we invented the motor car, in 1951 we developed the crumple zone, in 1981 we introduced the airbag . . ." the advertisements say.

Dasa's portrayal of its own history reads rather differently. The company's antecedents date back only to the 1980s. Only once this decade did the company announce a profit, in 1991.

The losses – expected to reach between DM1.5bn (£685m) and DM2bn this year – have become a serious concern for Daimler-Benz. Its own profitability has been affected, but its commitment to Dasa may not last indefinitely – especially if the latest attempt at reforming the company ends up like all its earlier attempts.

On Monday, when Mr Bischoff announced the job cuts, he said that investors in Dasa had the right to expect a return on their equity comparable with that of other investments. "It is not unreasonable to expect to see a DM200m profit on a turnover of DM5bn or so. This is the bare minimum return an investor can expect," he said.

Such comments make sense on commercial grounds, but they are bitterly disputed by many Germans. Leading politicians, anxious to protect jobs in their states or in their towns, regularly dispute the notion that Dasa must run on the basis of normal profit levels. The survival of the industry is elevated to a matter of the wider national interest.

Aerospace is a crucial industry for cities such as Hamburg and Bremen, where Dasa runs large production plants. But the same is not true for Germany as a whole. The Federation of Aerospace Industries says the sector employed a total of about 65,000 people at the end of 1994.

Even if the supplier industries are included, the number of people working in defence and aerospace does not begin to match employment in Germany's most important industries, such as chemicals and cars. The car industry, according to some industry analysts, ultimately accounts for about a quarter of all German jobs.

Mr Michael Hauger, a representative of the aerospace federation, forecasts that "after 1996 the industry will consolidate on a stable but low level". He remains confident that the industry will survive the present turmoil. "It is our aim to retain an industry with involvement in all the technical core areas," he says.

Dasa agrees with the official industry assessment. The company will shift some production capability abroad – perhaps worth $450m (£285m) a year in turnover and accounting for 1,000 jobs – possibly to Asia. But Dasa will otherwise continue to operate on the same basis as before, only a little leaner.

Further problems for Dasa and its employees may lie ahead if Germany loses out in the dispute with the UK over the work share-out for the Eurofighter, the successor to the Tornado. Under the original memorandum of understanding Dasa and British Aerospace were guaranteed a work share-out of about a third each, but following the German government's decision to reduce orders for the aircraft, Britain wants to reduce the amount of work given to Dasa. The deal is the subject of a heated dispute between the two governments.

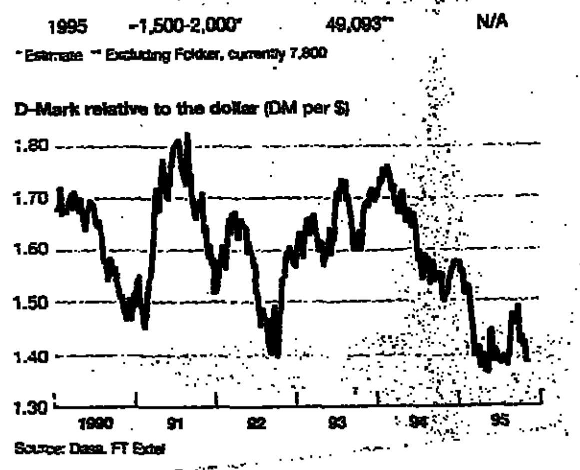
Even if Dasa's plans work out as intended – which by itself would be a significant achievement – it remains doubtful whether aerospace will ever assume the position of an important strategic industry in Germany's industrial landscape. It may not even hang on to the position it occupies at present.

Dasa: Buffeted by heavy losses

	Net profit (DM m)	Number of employees	Turnover (DM bn)
1990	-135	61,276	12.5
1991	50	56,465	12.4
1992	-341	81,872	17.3
1993	-694	86,086	18.6
1994	-438	75,591	17.4
1995	-1,500-2,000*	49,093**	N/A

* Estimate ** Excluding Fokker, currently 7,800

D-Mark relative to the dollar (DM per $)



Source: Dasa, FT Extel

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

UK most vociferous opponent of greater democracy in EU

From Mr Christopher Piening.

Sir, Of course we need a European Union with a strong democratic centre, as your correspondent Tim Readman says (Letters, October 23). There is certainly truth in his contention that power in the EU is still concentrated in the hands of national governments bent on preserving the national interest.

However, his proposition that "we" – I assume he means Britain – should be working with like-minded countries (Germany) in trying to achieve this aim takes no account of past and present realities. Certainly, Germany has long been a principal proponent of giving more power to the "democratic centre" – the European parliament. But Britain, for all its democratic traditions, has been the single most vociferous opponent of any such expansion of "power to the people". Not only has it shown itself reluctant to give the parliament more clout, it is a firm defender of the principle of preserving member states' veto rights.

This approach has recently been confirmed by the UK's representative in the reflection group preparing next year's inter-governmental conference to review the Maastricht treaty.

The present British government has never been interested in making the EU more democratic. It believes, rather, that power in the EU should be repatriated, and that the same national parliaments that rubber stamp their governments' domestic decisions should play a greater role in scrutinising European legislation. This is a recipe for decisionmaking gridlock on the practical level and an insult to the millions of European citizens who go out every five years to elect the European parliament.

Luckily, despite everything, the European parliament does have some measure of democratic control, and nowhere more so than in controlling the EU's budget. It plays an active part in drawing up the budget, with real power to influence where money is spent, and has the ultimate sanction of being able to reject the whole budgetary package if the Council won't agree to its modifications. And its budgetary control committee has long played a key part in identifying and remedying misuse of EU money.

Christopher Piening,
*Jackson School of International Studies,
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Drugs exemption should end in Spain

From Mr John D. Barker.

Sir, I should like to clarify your article, "Spanish drugs industry sets its sights against lifting ban" (October 17), commenting on the ending of the restrictions covering the export of pharmaceutical products from Spain. It is my understanding that, to date, the Commission has not issued any official comment which would indicate an interpretation of the moratorium as expiring on December 31 1995. The position, therefore, is that the recent decision by Mr Justice Jacob that the termination date under Article 47 was October 7 1995 remains the legal position.

Additionally, however, your article did not highlight the fundamental principle that is at stake in drug company attempts to continue to protect the EU pharmaceutical market from Spanish products.

The Spanish Treaty of Accession granted drugs a 10-year period of protection from the Rome Treaty's requirements for the free movement of goods. This was specifically to allow Spain to make drugs patentable in a way compatible with the rest of the EU. The exemption was not granted to protect drug multinationals from price competition.

Spain now has an effective patent regime. Thus, now the 10 years are up, the exemption should end as envisaged when Spain joined the community. To renew the exemption is to undermine the whole principle of the free circulation of goods – this at the behest of some of the most powerful of commercial vested interests. The drug companies have long used every legal means at their disposal to restrict supplies, impede the free movement of drugs and thus protect their higher-price EU markets. The costs of this are paid by taxpayers, pharmacists and consumers throughout the EU.

Surely the Commission cannot allow this to happen. If they do, what kind of message does it send both to commercial interests and to the governments of those states currently negotiating EU membership?

I believe Adam Smith spoke authoritatively on the subject of businesses and their drive to create cartels.

John D. Barker,
*chairman, Association of Pharmaceutical Importers,
11 High Street,
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London E11 2AA, UK*

Basis of liberal aviation

From Mr Edmund Dell.

Sir, I see ("Stuck on the ground", October 24) that Mr Gerald Greenwald, chairman of United Airlines, has described the Bermuda II civil aviation treaty between the US and UK as "the worst mistake in the history of US international aviation negotiations". I cannot say that I am greatly distressed. As secretary of state for trade, I denounced Bermuda I in June 1976 and was responsible for the negotiation of Bermuda II. I had come to the conclusion that Bermuda I, negotiated in 1946 at a time when the UK was weak and soliciting a large loan from the US, gave excessive advantages to US airlines; and that American talk of "open skies" was humbug. I concluded that, in the civil aviation relationships between the US and UK, we should start again.

The result was Bermuda II, agreed to resentfully by the US administration, and regularly condemned by heads of US airlines who found that they had lost freedoms that they had assumed were theirs by right. Bermuda II, condemned at the time as restrictive, has in fact provided the basis for progressive liberalisation, but on a reciprocal basis. It was under Bermuda II that I authorised the commencement of the Laker Skytrain services to New York. The liberalisation has been of benefit to travellers. The reciprocal basis has protected the interests of UK airlines. So I hope it will continue until the day arrives where there are genuinely "open skies", when, in other words, foreigners can develop services within the US and invest in US airlines as freely as they can in US chemical companies.

Edmund Dell,
*4 Reynolds Close,
London NW11 7EA, UK*

Learn the language of the global information network

From Mr David Morgan.

Sir, As I travel abroad a lot on business, I read the article "Travellers on the Infobahn start to speak in tongues" (October 23) with interest.

One of the problems with the global information network is that from time to time foreigners are going to use it, and foreigners being foreigners they will want to speak in their own language. A similar problem is encountered when one crosses the channel to mainland Europe; again one encounters hordes of foreigners intent on speaking French, German, and so on.

I would not advocate a surrender of British tradition, language and values to facilitate our incorporation into the vast Euro-superstate, but surely the maxim "when in Rome" must apply even to the most patriotic of us at times?

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FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Wednesday October 25 1995

The trouble with Quebec

For a country with no external enemies and a commitment to free trade, there are no economies of scale in nationhood. That thesis – put forward by Forbes magazine a few years ago – may be about to be tested in Quebec, which votes on Monday whether to authorise its government to declare independence from Canada.

Quebec fits the Forbes thesis. It possesses the cultural attributes of nationhood; it is not threatened from outside; and it promises, if independent, to seek to join the North American Free Trade Area. Why then does the prospect of its independence arouse such disfavour in the rest of the world? Concern is felt most strongly in financial markets: after confidently expecting a no vote, investors took fright this week when it seemed the debate might be going the separatists' way.

Partly, no doubt, outsiders share the exasperation with Quebec so prevalent in English-speaking Canada. The country, after all, has gone far to accommodate the concerns of its French-speaking citizens, and Quebec itself has been transformed since the separatist campaigns began in the 1960s. Partly, the world shares a sentimental approval of Canada – Mounties, bi-culturalism, slightly boring decency – which independence for Quebec would undermine. If tolerant Canada cannot share power across a linguistic divide, what hope is there for more bitterly riven societies?

And partly, there is the problem of getting there from here. Even if an independent Quebec made sense, the transitional costs would be enormous – not merely for its and Canada's citizens, but for all holding Canadian or Quebec assets. The difficulties would aggravate the long-term crisis in Canadian public-sector finances, itself partly caused by federal-provincial rivalry.

What Quebec wants, most of all, is to be publicly acknowledged as special within Canada. This desire is strong: it explains the paradoxical situation in which a majority of the province's population could end up voting for a separation they do not believe will happen, from a country of which they are proud to be citizens.

If Quebec votes yes in the referendum, its government will seek to negotiate a more advantageous relationship with the rest of Canada; if the talks fail, independence is supposed automatically to follow. A narrow "yes" vote on Monday – the most the separatists can hope for – would in practice be the signal for a bad-tempered and probably inconclusive wrangle. Bad temper is also guaranteed by a defeat for the separatists.

In the background is a serious issue for all federal states: the relationship between the centre and the regions, now that the tide has turned against ever-expanding government power. Even where nationalism is not an issue – as in the US and the rest of Canada – local governments are demanding a new relationship with the centre. Simultaneously, budget constraints are depriving central governments of their most potent weapon, the power of the purse.

The emotional force behind the Quebec campaign is undoubtedly the nationalist identity of the province's French speakers. It is to be hoped that they vote to preserve the Canadian federation, for both practical and idealistic reasons. But however the vote goes, there is a message for politicians elsewhere: the economies of scale of nationhood are no longer automatically accepted. The regions are getting restless; and where that restlessness mingles with nationalism, the combination is corrosive if not explosive.

Prudential step

Competition for deposits in the UK banking market is fierce. The mortgage lending business is suffering from the collapse in house prices. Why, then, is Britain's biggest life insurer planning to diversify further from its traditional business by establishing a deposit and mortgage lending operation?

It is, of course, wiser to go into new markets when they are closer to the bottom than the top. The Prudential learned that lesson the hard way with its disastrous diversification into estate agency; and with hindsight it may have been fortunate to have been rebuffed in an earlier approach to the Skipton Building Society when the housing market was still buoyant. But the real explanation for the proposed move is that the logic of the financial services revolution points firmly in the direction of combining the traditional functions of banking and life assurance.

In a liberalised market where the old regulatory barriers between different financial functions have been dismantled, licenced poaching becomes the order of the day. And the best way for a dominant institution like the Prudential to defend an existing clientele is to offer it a fuller range of services in as cost-effective a manner as it can.

At present only one in 12 Prudential customers has a mortgage arranged by the big insurer, which leaves considerable room for expansion. And more than £1bn a year of cash from maturing policies is paid mainly into deposit accounts with others. That, too, could be partly recaptured once Prudential obtains a deposit-taking licence.

The insurers' biggest advantage in this deregulated market is that they do not carry the huge overhead inherent in a branch network. They can thus undercut the banking competition if they wish, which means market share can be profitably increased even if overall market conditions remain flat. The Prudential's move is, in effect, the other half of the story about rationalisation in the high street. By confronting banks with potential low-cost competition, insurers make branch closures and redundancies inescapable.

The insurers' big disadvantage in financial services is that they cannot give customers easy access to cash. Significantly, the Prudential is not following Midland's First Direct in offering current accounts. At least, not yet. But even a limited move into branchless banking by an insurance institution with 6m customers is a historic landmark. The resulting acceleration in competition will ultimately benefit shareholders and consumers, although the short-term outlook for bank employees is not a comfortable one.

Major and Menem

The meeting of Mr John Major, British prime minister, and Mr Carlos Menem, president of Argentina, the first between leaders of the two countries since the 1982 Falklands war, is an important symbol of rapidly improving relations between the two governments.

It follows a landmark agreement last month on oil exploration in the disputed Falklands waters and precedes a likely deal on fisheries – welcome steps towards defusing tensions in the south Atlantic, to the benefit of Argentina, Britain and the islanders themselves.

The oil co-operation agreement in particular aligns the economic interests of Argentina, Britain and the Falkland islanders in a way that will make it more difficult for conflict to recur.

Oil was the most difficult issue for the two governments, because it directly raised the question of the islands' sovereignty. Since oil royalty payments can only be levied by a sovereign government, an agreement to share royalties would have been tantamount to each side conceding the legitimacy of the other side's claim to sovereignty.

The accord is therefore constructively ambiguous. Both governments officially deny the right of the other to levy royalties. Both will levy royalties – Argentina possibly in its role as the onshore supply base for the oilfield. But to avoid scaring off the oil companies with excessive royalties, they separately make it clear that the combined tax regime will leave the region attractive compared with other similar exploration areas.

Whether this ambiguity will be viewed as constructive by oil companies will not fully be known until the Falklands licensing round ends next July. In any case, its practicality will not be tested until oil starts flowing in commercial quantities in five or so years time – if indeed oil is found. By this time, UK-Argentine relations may have advanced to the point where alternative arrangements prove possible.

The two leaders have also put their weight behind the negotiation of a long-term agreement on fishing, arrangements for which are at present negotiated annually. This will not be easy: Argentina's commercial interest has grown rapidly to the extent that it exported more fish than meat last year. Given high-level backing, however, a deal is likely soon. The British government has also agreed to discuss lifting the UK arms embargo on Argentina.

If these accords work, as they should, they provide a framework for the Falkland Islands that should operate at least until oil starts flowing. They may also, by building mutual confidence, bring closer a lasting solution to the sovereignty question.

Competitors turn up the heat

Liberalisation of the UK market is causing unforeseen problems for British Gas, says **Robert Corzine**

Two years ago British Gas was comfortably in control of a captive market of 18m UK households and was the dominant supplier of gas to British industry.

It had survived a bruising inquiry into the industry by the Monopolies and Mergers Commission and believed that it could compete effectively in a residential market which the government had decided to open to competition in 1998.

In the course of the past year, however, British Gas's assumptions have proved to be overconfident. A series of shocks have hit the industry as it prepares for the phased opening of the £6bn a year domestic gas market, beginning on April 1 next year.

First, fierce competition from new entrants to the market to sell gas to industry and commerce has reduced the company's market share to below 35 per cent. Second, gas prices fell sharply as companies realised that there were surplus stocks of North Sea gas equivalent to a quarter of a year's total UK supply – but British Gas was locked into long-term contracts to buy gas from the North Sea at more than twice the going rate on the spot market.

The financial implications of the falling prices for British Gas are such that Ms Claire Spottiswoode, head of Ofgas, the regulator, has warned that more attention will need to be given to the company's plight. "It is not obvious that British Gas's long-term financial situation is secure," she says. "I'm quite concerned that if the problem is not manageable, then we should be planning to do something about it."

Ms Spottiswoode's main concern is to protect consumers, but she also has a responsibility to ensure the financial viability of the regulated parts of the UK gas industry, especially the pipeline monopoly, TransCo, which is crucial to the introduction of competition. She warned that more surprises may be in store. "The genie of competition is out of the bottle," she said.

British Gas yesterday declined to comment on Ms Spottiswoode's statement. But last month it issued a profits warning in which it said that the "adverse effects" of the gas surplus and falling prices were likely to have "a progressively greater impact in the second half of the year".

British Gas's problem is that, as a monopoly with guaranteed outlets for its gas, it signed contracts of between 25 and 30 years to buy gas from large North Sea producers – both before and after its privatisation in 1986. The contracts contain "take or pay" clauses which require it to pay for the gas even if it does not have a market in which to sell it.

It pays an average price of around 20p a therm for such gas. This compares with spot gas prices of between 7p and 9p a therm; prices have fallen because of an oversupply of gas from the North Sea – from which there are no export pipelines.

Last month British Gas announced that it had paid £500m so far this year under the "take or pay" provisions, and that it was likely to take a charge of between £50m and £100m to cover the difference between the contracted price and the eventual likely sale price of the surplus gas.

The company blames the problem on the upheaval in the industry brought about by the government's liberalisation plans. It wants the contracts re-negotiated.

"All the stakeholders in the industry should share the pain of its transformation," says Mr Cedric Brown, British Gas's chief executive.

Informal talks have begun between British Gas and some producers. But neither side is willing to characterise them as formal negotiations.

Ms Spottiswoode is gloomy about their prospects for success. She wonders "why North Sea producers should bother to renegotiate with British Gas". After all, she says, they have legally binding contracts. And there is no "overt" action that the government could take to force them to the negotiating table.

For some in the industry the possibility of one of Britain's largest industrial companies falling victim to structural changes in the UK gas market calls into question the government's decision two years ago to bring forward the opening of the domestic market from 2002 to 1998.

The 2002 target was mentioned in a Monopolies and Mergers Commission report in 1993 as the earliest recommended date for opening the gas market. But the government decided to move it forward to 1998, the date it had already selected for liberalisation of the domestic electricity market.

Ms Spottiswoode this week said Mr Michael Heseltine, the former trade and industry secretary and now deputy prime minister, would never have authorised an accelerated timetable for liberalisation if he thought "it would kill off British Gas".

Many of the problems of oversupply stem from actions taken by companies about the time of Mr Heseltine's 1993 decision; they wanted to challenge British Gas's domination of the domestic market and signed new contracts with North Sea producers for their own gas supplies. Some North Sea producers, including British Petroleum, Shell, and others with uncontracted gas reserves, also began supplying their own gas subsidiaries, undercutting the prices to which British Gas was committed.

British Gas blames the government for creating its quandary. "The government changed the game on us," said one senior British Gas executive recently.

The company has even investigated whether it has any case for taking legal action against the government to recover losses on the contracts. However, advice from leading barristers is that winning against the government is extremely difficult, so the company is unlikely to sue.

For its part the government is still hopeful that commercial negotiations will emerge as a solution.

Some government officials, however, have been critical of the way British Gas has addressed the problem, saying it was late in recognising the seriousness of the issue.

The government, in common with Ms Spottiswoode, rejects any suggestions that consumers may be made to pay a special levy to help alleviate the situation. "No one has put forward any suggestion that the consumers should help shoulder the burden," says Ms Spottiswoode.

She also rejects suggestions from British Gas that new entrants into the domestic gas market be forced to enter into similar long-term contracts to help reduce the surplus. Such a move would be "madness", she says. "It would only institutionalise the oversupply."

Some British Gas executives have also suggested delaying the onset of competition for the residential market. "Extend the monopoly? That would be bad for the consumer," says Ms Spottiswoode. "We won't do that."

Analysts are divided as to the urgency with which a solution must be found. Mr Daniel Martin at BZW says: "British Gas will be able to renegotiate these contracts and by the end of 1997 I expect them to have more sensible deals out of the producers. But if they have not renegotiated by the time the domestic market has been opened up and if the spot price is well below 20p a therm they they have serious problems."

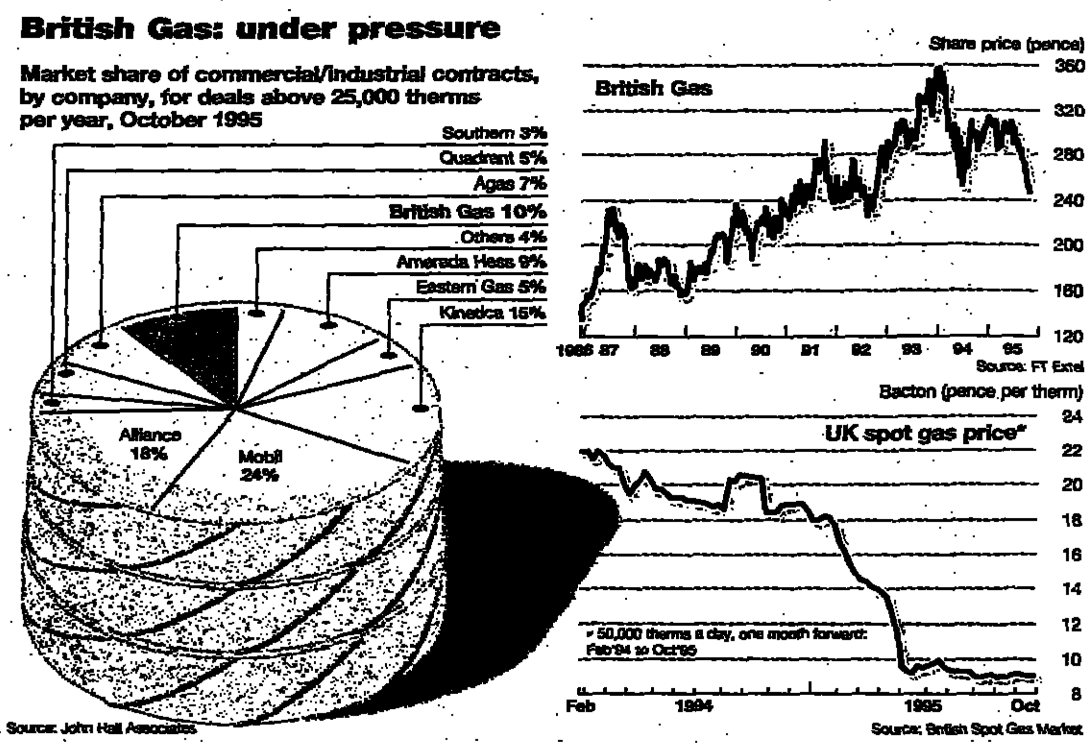
Some believe that a new pipeline linking the UK with continental Europe, which is due to be completed in 1998, will allow the surplus to be exported.

But few believe a quick solution can be found.

In the meantime both the government and the regulator are keen that the take-or-pay issue does not detract from the launching of the first phase of competition. The first pilot scheme to test domestic competition is due to start on April 1 among 500,000 gas consumers in Somerset, Devon and Cornwall.

Ms Spottiswoode is confident that even a financial crisis within the British Gas group would not stop the liberalisation process. "The obverse of British Gas's [financial] pain is that consumers will pay less."

British Gas: under pressure



Time for sober reflection

Champagne has lost its fizz for French public relations professionals, says **Andrew Jack**

The champagne flowed freely and lobsters were piled high on the waterfront restaurant tables. Luxurious hotel rooms even offered room-service menus for dogs.

A casual visitor to Deauville, the opulent French seaside town in Normandy, could have been forgiven for thinking that senior representatives of the French communications profession, gathered recently for their annual Top Com conference, were still enjoying the excesses of the 1980s.

However, after gaining power and influence over the past decade, the role of the "directeur de la communication", a peculiarly French function, is in crisis.

"Dir comms" used to be the champions of corporate image campaigns, the "gate-keepers" between journalists and senior executives, and the co-ordinators of all types of contact with the world outside and within their businesses. But the industry is now feeling the effects of the prolonged 1990s recession: corporate communications budgets have been cut and chief executives, who happily courted the media in good times, have clammed up.

"They are at last experiencing the problems that took place in the UK three or four years ago," says one headhunter who hires public relations executives on both sides of the Channel.

The history of dir comms in France is short but colourful. Mr Jean-Pierre Labro, until recently head of communications at Elf Aquitaine and widely considered the doyen of his profession, says it began at the end of the 1970s, when the subsidiaries of foreign multinational corporations such as International Business Machines launched corporate image campaigns. French business followed suit.

"At the time, communication was with the press," he says. "Companies did not have a good reputation. Capitalism was something that was dirty, it was only about making profits. There was distrust between companies and journalists."

That began to change during the 1980s. The image of business began to be rehabilitated, the print media developed greater interest in the economy and hired more specialist writers, and there was an explosion of interest in the broadcast media and corporate films.

"Companies realised that they needed to be seen as much more part of society and to get people on their side," says Mr Jean-Pierre Rousset, chairman of Burson Marsteller Eurocorporate, a Paris-based communications consultancy. "France was late in developing advertising and PR and decided to catch up fast."

Many executives wanted to raise their image, often with an eye to attracting new investors through the stock market. The trend was boosted by the first wave of privatisations from 1986, accompanied by ambitious publicity campaigns.

As the interest in communications and in courting the media grew, so did the role and power of the profession. In countries such as the UK similar trends led to the rapid expansion of external firms of financial public relations consultants. In France, most of the functions remained within companies – perhaps reflecting a national tendency to centralise decision-making within a corporate hierarchy.

The new-found power and status of the profession did not come without abuses. Some dir comms were hired more for their celebrity status or media contacts than their experience in corporate communications.

One case of the delicate links between journalists, executives and politicians emerged in April this year, when Mr Patrick Poivre d'Arvor, a television presenter, was fined FFr200,000 ($40,900) and given a 15-month suspended prison sentence by a court in Lyons for receiving paid trips and other benefits distributed to him and others, including the mayors of Lyons and Cannes, by Mr Pierre Botton, a businessman.

The mood began to change after 1990. The Gulf war and the prolonged economic recession cut into communications budgets and staffing. The advertising industry, which had provided much of the engine for growth in the profession, was severely affected by two French laws in 1993, which reduced its power and profits. One increased transparency in the billing process, the other curtailed much alcohol and nearly all tobacco advertising.

Meanwhile, chief executives who had happily courted the media during good times went quiet when they found themselves criticised as their companies suffered losses and were subject to growing allegations of corruption.

"It is the hour of truth," says Mr Labro. "The less professional communications people have disappeared and the more professional ones are weaker. The crisis has got rid of the false professionals." He argues that the emphasis is now changing: internal communication with staff is increasingly important, to motivate them at a time of management change and continued cost-cutting. There is a call for more sophisticated evaluation of the effectiveness of communication.

In Deauville, attendance at Top Com slumped and the event has made losses in the last two years. This year, serious seminars have taken the place of indulgence. The champagne may still be flowing, but it has lost a lot of its fizz.

OBSERVER

Birth pangs of a nation

■ Hacks in Buenos Aires know a good story when they see one, which is why the birth of a more than bouncing 6kg baby got rather more attention the day before the rebirth of Anglo-Argentine relations at the UN.

Hours before 13 years of diplomatic ice melted in New York, Noemí Sanchez de Salazar gave birth in La Plata to Bryan Salazar. The father, working in another province, found out about the event through the media.

The press got more excited about president Carlos Menem's meeting with UK prime minister John Major when it was announced that Menem had finally got his invite to London; he's been hankering after it for years. The biggest daily, *Clarín*, even devoted five pages to post-encounter analysis. A *Clarín* journalist, who must have been in Menem's pocket, if his verbatim account is to be believed, reported that Menem's entourage had to suppress their desire to burst into applause when Major delivered his invitation.

Menem was also hoping his New York trip – for which he pointedly left behind economy minister Domingo Cavallo – might also calm investor fears about Argentina's present situation. In this respect things didn't go quite so much to plan; on Monday, prices on Argentina's stock exchange fell 5 per cent.

Ritt and wrong

■ It takes a lot to silence Ritt Bjerregaard, the Danish environment commissioner who has produced a kiss-and-tell memoir barely nine months after arriving at the EU. But she was left slack-jawed yesterday after a French journalist asked whether she was ready to live up to her country's reputation for openness, and reveal how much money she's getting for her about-to-be-published Brussels diary.

Bjerregaard said she would follow the Commission's own internal rules, which ban fees. But she just happens to be in dispute over how tightly those rules should be interpreted.

This is very tricky for Jacques Santer, president of the Commission. He loathes confrontation, but his staff are appalled by Bjerregaard's publishing venture, which they believe is a damaging breach of trust. Will he make a stand, or is he hoping that Bjerregaard is an unguided missile, careering towards self-destruction?

Absent friend

■ So why wasn't Germany's chancellor Helmut Kohl rubbing shoulders with his pals in New York at the UN's 50th anniversary? After all, Boris Yeltsin, Jacques Chirac, John Major, Bill Clinton and many others all turned up for the group photo.

"I have great respect for the United Nations," said Kohl. "But I don't see how I can express my respect by being brought to the podium and saying goodbye after five minutes." Five minutes was the mandatory time limit for speeches by world leaders at the affair. Most of the others – lacking Kohl's eloquence, perhaps – managed it comfortably enough.

Pyramid selling

■ Meanwhile, over in Cairo the anniversary celebrations were rather muted. Last night plans for a party were scuppered at the eleventh hour in a spirit of solidarity with the secretary-general's cost-saving measures.

In a fax sent to Egypt-based UN representatives, Costante Muzio, the resident co-ordinator, said that owing to the UN's financial crisis the party was cancelled. "It would not be appropriate to incur expenditure on hospitality owing to the grave financial situation," she wrote. Such noble gestures made the UN the institution it is today.

Trouble is, the cost-saving measures she referred to were announced in a UN bulletin on September 14; yet the blue-and-white invitation cards were only sent out in early October.

Power lunchers

■ Time has not softened the rhetoric of Ukraine's leftwingers. Socialist party co-ordinator Vasily Arestov yesterday said that trade unions and left parties demanded that the "bourgeois" Ukrainian president and parliament step down and cede "all power to the workers". Nationalise private banks and all commercial structures! Confiscate all hard currency! Ah, those good old days...

This sort of thing cuts little ice with president Leonid Kuchma, a captain of industry in his former life as a Soviet factory boss. He's just had lunch with some beastly bourgeoisie – the chiefs of Monsanto, General Motors and Westinghouse – in a fancy New York setting. Nationalise all power lunches! Or something...

Burning desires

■ The citizens of Edenbridge, in the English county of Kent, will burn an effigy of French president Jacques Chirac on Guy Fawkes' night, on November 5. They've voted him this year's most unpopular person, thanks to French nuclear tests. The vote should prove enormously popular in Mont Saint-Aignan – Edenbridge's twin town – close to Paris.

The Financial Times

100 years ago

Lessons of the slump

While the holder of shares in sound mining companies now has reason to congratulate himself on not having thrown away his property at low values during the recent panic, he will pursue a wise course if he calmly surveys the situation. In the first place, the startling occurrences of the past few days strikingly illustrate the fact which we recently sought to impress on novices in speculation – that market downfalls are liable to occur quite irrespective of the merits of properties.

50 years ago

Atlantic air fares

A question in the Commons yesterday asking whether the Government would consider making the fares charged by the British Overseas Airways Corporation competitive with the American air services drew no fresh light. The real question is what steps are being taken to bring the machines and other equipment of B.O.A.C. up to the standard necessary to face all comers successfully. It will have to be done if Great Britain is to hold her own in a service which the Pan American Airways propose to provide at half the present fares.

FINANCIAL TIMES
Wednesday October 25 1995

Car project one of China's largest at $1bn-$2bn

GM set for Shanghai contract ahead of Ford

By Tony Walker in Beijing and John Griffiths in London

General Motors is believed to have beaten Ford to secure one of China's largest car manufacturing projects, a Shanghai facility worth between $1bn and $2bn.

Chinese officials indicated yesterday that GM had been selected and said an announcement was imminent. But both GM and Ford, the world's two biggest vehicle makers, said that they had yet to be told by the Chinese whether a partner for the project to build a mid-size car in China had been chosen.

Mr Lu Fuyuan, minister for the automotive industry under the ministry of machine-building industries, leaves for the US today for meetings with car manufacturers.

GM and Ford have engaged in spirited competition for the Shanghai project with frequent visits by top executives.

Ford says it is still in talks. "We are still negotiating with SAIC [state-owned Shanghai Automobile Industry Corp, the Chinese partner in the venture]. Nothing has changed in that regard – it is still an open issue."

As part of their campaigns, GM and Ford have each already announced a series of motor components manufacturing ventures in China, hoping to win favour under China's new automotive policy announced last year.

The policy froze new car manufacturing ventures until 1997 and demanded that companies wanting to produce vehicles in China showed a commitment by investing in the components sector. When further manufacturing ventures are authorised, they are expected to contain stringent new requirements for a high level of Chinese-produced components.

Ford has so far invested about $250m in Chinese ventures, including a 20 per cent stake in a truck company.

Last month GM's global components subsidiary, Delphi Automotive Systems, announced automotive battery and steering system ventures totalling $80m in Shanghai. An announcement of another $50m components venture is believed to be imminent. Altogether, GM has set up or is negotiating a total of 25 components joint ventures in China.

GM and Ford have become increasingly anxious not to be left behind in China, where European, particularly German, car manufacturers have taken the lead. Hopes by Chrysler, North America's third largest manufacturer, that it would win a coveted contract to build multi-purpose vehicles, were dashed several weeks ago when Beijing awarded the contract to Mercedes-Benz.

By the end of the decade, China plans to meet 90 per cent of its annual car needs of between 2m and 3m vehicles from local production. Last year it produced fewer than 300,000 cars out of a total vehicle production, including trucks and other utility vehicles, of 1.4m.

Daewoo boost in Poland, Page 10
Competition in Egypt, Page 10

Argentine ministry seeks to undercut phone fees

By David Pilling in Buenos Aires

Argentina's economy ministry is considering using a "callback" service to avoid the exorbitant costs of long-distance and international telephone calls that were established by its own officials.

Callback services allow users to make long-distance calls via a third country, usually the US, and pay the rates applicable in that country. Even after commission, users can cut their Argentine bills by more than half. The cash-conscious ministry, whose telephone bill runs to an annual $3m, is understandably keen to make similar savings.

Argentina's telephone tariff structure, agreed by the economy ministry when the state-owned Entel was privatised in 1990, sets very high rates for long-distance calls, while keeping local rates well below international norms. A three-minute call from Argentina to the US during business hours costs $8, but only $1.50 if the call originates in the US.

Such are the savings that a call from Ushuaia in Argentine Patagonia to Buenos Aires, the capital, actually works out cheaper if routed via Miami or New York.

The skewed pricing structure was intended to allow the two privatised telephone companies, Telefónica and Telecom, to generate revenues through long-distance business traffic for multi-billion dollar investments in upgrading Argentina's archaic network. At the time of privatisation, it was thought politically impossible to raise local call costs.

Telefónica and Telecom have asked Argentine courts to declare callback illegal on the grounds that the service contravenes their quasi-monopoly, which runs until at least 1997. But last year, an appeals court declared in favour of callback, since when the number of services has mushroomed to an estimated 25. The so-called Telephone Twins have taken their battle to the supreme court.

Mr Luis Alberto Murina, sub-secretary of administration at the economy ministry, admitted the ministry had looked into the callback system but denied that a public tender to select an operator was imminent. "We haven't done anything about it. Until it is absolutely clear whether callback is legal we will not proceed."

Mr Murina said the ministry constantly tried to cut costs and would consider callback if legal doubts were removed.

The economy ministry is now considering rebalancing telephone tariffs. A study commissioned from the UK consultancy Nera recommends the gradual lowering of long-distance call costs by up to 80 per cent, and a 44 per cent increase in local calls.

South American satellite project sees equity boost, Page 10

EU commissioner struggles to defend her 'tell-all' book

By Lionel Barber in Strasbourg

Mrs Ritt Bjerregaard, the Danish environment commissioner, found herself politically isolated yesterday as she struggled to defend her decision to publish "meet-and-tell" memoirs.

Mr Jacques Santer, president of the European Commission, expressed his surprise that a "young commissioner" had launched into print just nine months after arriving in Brussels.

At a joint press conference at the European Parliament in Strasbourg, the two sat side-by-side as Mr Santer used a mixture of mild put-downs and light sarcasm to deal with Mrs Bjerregaard's indiscretions.

In Denmark, however, Mr Niels Helveg Petersen, the foreign minister, took a stronger line, saying that the diary risked jeopardising the commissioner's and Denmark's ability to influence environemental policy in Europe. "That is a very high price to pay," he said.

The Danish government may also be worried that Mrs Bjerregaard's undiplomatic remarks about EU leaders could hurt the chances of Mr Uffe Ellemann-Jensen, the former Danish foreign minister, of winning the job of Nato secretary-general which is vacant following the resignation of Mr Willy Claes.

Meanwhile, the European Parliament will consider a motion this week which would hold back funds allocated to the Commission in the 1996 budget until MEPs receive clarification of rules about commissioners' trips or other engagements involving fees.

Mr Santer said that Mrs Bjerregaard had not informed him of her intention to publish a diary, but he doubted that it contained indiscretions. "Unfortunately, I don't speak Danish, I must work on it," he said.

The press conference, called to discuss the Commission's decision not to take France to court over its nuclear tests, was hijacked by the controversy over Mrs Bjerregaard's book. "This book is more radioactive than the tests," joked Mr Santer.

The diary includes disparaging remarks about Chancellor Helmut Kohl of Germany, President Jacques Chirac of France, and Mr Felipe González, prime minister of Spain, and claims that Mr Chirac treats Mr Santer shoddily.

Mrs Bjerregaard defended her decision to publish a diary as a means of bringing Brussels alive to the man-in-the-street in Denmark where people were sceptical about the European Union.

But she appeared taken aback by the controversy and was evasive when questioned about the size of her fees and whether she stood to gain personally. With Mr Santer listening to interpreters through headphones, Mrs Bjerregaard replied in Danish that she would respect the Commission rule that commissioners are not allowed to take fees.

Brussels clears France over nuclear tests, Page 3
Observer, Page 19

Pace of German growth set to slow

Continued from Page 1

report confirmed that "the blockade of growth forces through excessive taxes and levies is continuing". The solidarity tax and higher social insurance costs would dampen investment and work against growth, the federation warned.

The six institutes, whose forecasts are influential in Germany, said growth would falter in the first half of next year, slowing from 2.25 per cent this year to an annual rate of 2 per cent. But they said growth was expected to pick up in the second half of the year rising to an annual rate 3 per cent by the year end. Consumer spending would grow by 3 per cent next year compared with 1.5 per cent this year and a low of 0.9 per cent in 1994, the institutes said, because of higher income tax thresholds for the less-well off, an increase in child benefit payments and the abolition of a surcharge on electricity to subsidise domestic coal production.

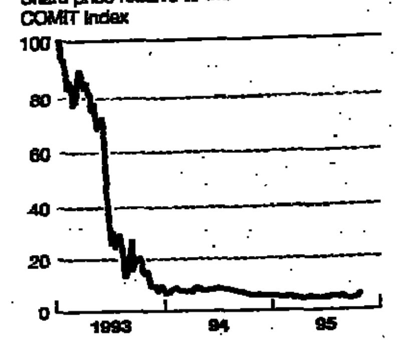
Unemployment would fall slightly from 9.4 per cent this year to 9.2 per cent in 1996 as businesses sought further cost-cutting measures through redundancies and investing abroad.

THE LEX COLUMN

Gas leak

FT-SE Eurotrack 200: 1490.8 (+10.8)

Ferruzzi Finanziaria



Source: FT Extel

Ms Clare Spottiswoode, the UK gas regulator, is right to highlight the pickle British Gas is in as a result of its long-term take-or-pay contracts. But in raising the possibility that the company could go bust, she is unduly alarmist.

The headline figures are, indeed, ghastly. British Gas is committed to buy £40bn of gas over the next decade or so at an average of 20p a therm. With the current spot price less than 10p a therm, it may look as though the company is sitting on a £20bn financial problem – intimidating even for a group with an £11bn market capitalisation. But the net present liability of the company's contracts is nowhere near as big once likely movements in gas prices, tax offsets and the effects of discounting losses far in the future are taken into account.

In computing British Gas's liability, it is more relevant to look at the price of new contracts, roughly 15p a therm, than the spot price which has been depressed by unusually warm weather. Though that still implies a gross loss of around £10bn, the after-tax loss would be £6.7bn. Moreover, the initial losses will be quite modest, because the company can pass high prices to domestic consumers until its monopoly is abolished in 1998. Thereafter, the losses would be spread over a decade or more. Using a discounting rate of 10 per cent, the net present liability is probably under £3bn. The eventual hit will be still less if British Gas manages to negotiate more favourable terms for its contracts. The group faces a big problem – perhaps even bigger than its depressed share price reflects – but it will not sink.

Ferruzzi Finanziaria

Superficially, the latest Ferruzzi Finanziaria rights issue offers little cause for celebration. Under the now-postponed Gemina restructuring, Ferfin's largest shareholders – its banks – had the option to sell out. Instead, they are having to shell out on a L1,035bn ($646m) rights issue. Moreover, Mediobanca and friends will underwrite the offer and could end up consolidating control of Ferfin on the cheap.

In reality, however, Ferfin shareholders have probably achieved a great escape. The banks do rather well. They have to put up cash, but since L300bn of the rights proceeds will repay bank debt, much of their rights money will probably come back again. Meanwhile, the refinancing means that Ferfin is no longer under pressure to pursue the ludicrously complex Gemina merger. This would have been great for the deal's architects, Fiat and Mediobanca, but it was distinctly unfavourable to Ferfin's minority shareholders.

Of course, Ferfin must eventually metamorphose. Its bank shareholders took their shares as part of a 1993 rescue restructuring, and they want to get out. The most profitable solution would be to break up the group. Its largest asset is a 30 per cent stake in Montedison, another complex holding company for several attractive investments. Montedison's break-up value would considerably exceed its share price. The banks would then get their cash, and Mediobanca's domination of the Italian stock market would be diluted. But in corporate Italy, such fairytale solutions are rare.

Canada

The prospects of a division of Canada may well be exaggerated by the current opinion polls showing a slim lead for the Quebec separatists in Monday's referendum. But the recent capital flight shows that investors are taking no chances with their savings – and they are probably right to do so.

A vote in favour of independence for Quebec would create two financial issues. The first would be how to divide Canada's C$580bn ($431bn) federal debt. Not only would this be messy, with an independent Quebec likely to resist assuming a quarter of the debt in line with its relative population size; but, given that Quebec province already has high debt levels, those bonds which were eventually assigned to the new country would have a reduced value. The second would be whether Quebec would be able to keep the Canadian dollar as its currency. The separatists insist it would. But there would inevitably be economic tensions in maintaining the same currency.

After separation, Quebec's economic performance will be hard pressed to match that of the rest of Canada if business and capital drifted away to other provinces. There could also be political difficulties. Once a newly independent Quebec realised that it had no say over how the Bank of Canada conducted monetary policy, pressure for its own Quebec franc could mount.

Prudential

Life assurance is a tough business at the moment and the market was pleased yesterday to see the Pru planning to diversify. The idea – to start taking deposits and selling mortgages in competition with British banks and building societies – looks a better bet than its ill-fated excursion into estate agency.

Taking deposits exploits a real business opportunity. The Pru pays out more than £1bn a year in maturing insurance policies and it wants to catch some of this money before it leaves the door. Moreover, there are healthy margins to be made in this business – depositors tend not to be too fussy about rates.

They are pickier, though, when it comes to taking out mortgages. Here the Pru's plan is more risky. The market is highly competitive and margins are tight. It is especially tough for a newcomer: selling a mortgage is much more difficult than keeping one already on your books. On the other hand, without a branch network to maintain, the Pru should have the advantage of lower costs.

The main challenge will be to match mortgage lending to deposits. If mortgage lending takes off but deposits do not, the Pru will have to borrow in the wholesale markets. That would probably mean finer terms and much lower margins. To keep borrowing and lending in balance, the company will need to keep mortgage-lending in check while working hard to win deposits. Since selling mortgages by telephone is likely to be a lot harder than taking deposits in the same way, it stands a good chance of success.

Additional Lex comment on Dalgety, Page 26

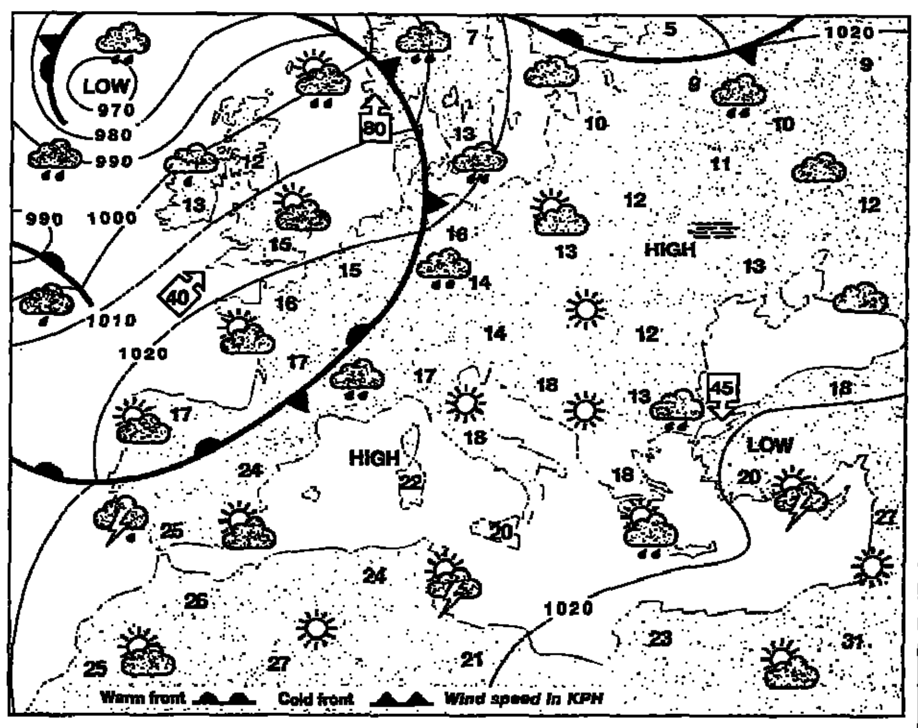
FT WEATHER GUIDE

Europe today

Most of the UK will have cloud and showers but western Scotland and England will have rain later. The west of the continent will have cloud and rain in the morning but skies will clear and sunny periods will occur. Northern parts of the Benelux and Germany may have showers. Most of central Europe and Italy will be sunny and dry but the frontal zone will produce cloud and patchy rain in the Alps. High pressure over eastern Europe will give some sun. The Ukraine will have morning fog. Low pressure over Turkey will produce cloud and rain in Bulgaria and Turkey. Greece will have showers.

Five-day forecast

High pressure will expand over the continent promoting sunny and dry conditions in eastern and south-eastern Europe. Turkey will remain unsettled as low pressure continues over the Mediterranean. Western Europe will be dry but cloudy and a frontal zone with cloud and rain will enter the continent on Friday. Cooler air will arrive in the wake of the front. The UK will remain unsettled with seasonal temperatures.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	sun	18	Caracas	shower	31	Faro	cloudy	23	Madrid	shower	20	Rangoon	fair	34
	Celsius		Belfast	shower	12	Cardiff	shower	13	Frankfurt	shower	18	Majorca	sun	23	Reykjavik	cloudy	5
Abu Dhabi	sun	34	Belgrade	sun	13	Casablanca	fair	25	Geneva	shower	16	Malta	fair	21	Rio	fair	27
Accra	fair	30	Berlin	fair	15	Chicago	sun	15	Gibraltar	fair	22	Manchester	shower	13	Rome	sun	20
Algiers	sun	25	Bermuda	shower	27	Cologne	fair	16	Glasgow	rain	14	Manila	cloudy	30	S. Frsco	sun	22
Amsterdam	shower	15	Bogota	cloudy	20	Dakar	fair	31	Hamburg	fair	16	Melbourne	cloudy	19	Seoul	fair	20
Athens	cloudy	17	Bombay	fair	35	Dallas	sun	22	Helsinki	cloudy	9	Mexico City	cloudy	22	Singapore	thund	32
Atlanta	fair	22	Brussels	shower	15	Delhi	sun	31	Hong Kong	cloudy	27	Miami	fair	29	Stockholm	fair	13
B. Aires	rain	26	Budapest	sun	12	Dubai	sun	33	Honolulu	fair	30	Milan	fair	16	Strasbourg	cloudy	17
B.ham	shower	13	C.hagen	shower	12	Dublin	cloudy	13	Istanbul	shower	16	Montreal	shower	11	Sydney	cloudy	22
Bangkok	shower	33	Cairo	sun	31	Dubrovnik	sun	18	Jakarta	cloudy	32	Moscow	fair	9	Tangier	fair	26
Barcelona	cloudy	21	Cape Town	rain	14	Edinburgh	shower	13	Jersey	shower	13	Munich	sun	15	Tel Aviv	sun	30
									Karachi	sun	34	Nairobi	fair	26	Tokyo	fair	22
									Kuwait	sun	35	Naples	sun	20	Toronto	sun	12
									L. Angeles	sun	27	Nassau	fair	30	Vancouver	shower	12
									Las Palmas	cloudy	25	New York	fair	18	Venice	sun	17
									Lima	cloudy	21	Nice	cloudy	20	Vienna	sun	13
									Lisbon	shower	21	Nicosia	fair	27	Warsaw	sun	13
									London	shower	15	Oslo	rain	11	Washington	sun	18
									Lux.bourg	shower	14	Paris	cloudy	17	Wellington	rain	13
									Lyon	shower	18	Perth	fair	25	Winnipeg	shower	8
									Madeira	cloudy	25	Prague	sun	14	Zurich	cloudy	15

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FINANCIAL TIMES
COMPANIES & MARKETS

Wednesday October 25 1995

IN BRIEF

Acquisitions lift Portuguese bank

Banco Comercial Portugués, Portugal's biggest commercial banking group, reported a net consolidated profit of Es14.22bn ($96.6m) for the first nine months of 1995, up from Es13.16bn in the same period last year. The results are not directly comparable as BCP's total assets more than doubled in the intervening period following the acquisition of Banco Portugués do Atlântico for Es308bn in March. Page 22

Fillip for Postbank takeover
Deutsche Post's efforts to take over Postbank, its state-owned sister organisation, were lifted after Mr Arne Börnsen, the head of the Bundestag postal committee, said a takeover would keep open the largest possible number of post offices. Page 22

Tisa buys Argentine TV stake
Tisa, the international arm of Spain's Telefónica, is to buy 25 per cent of Multicanal, the Argentine cable TV group, intensifying the battle for Argentina's cable market. Page 23

DLJ returns to NYSE
Donaldson, Lufkin & Jenrette is going public once more. The securities firm was founded in 1959 and went public in 1970 becoming the first New York Stock Exchange member to be quoted. It was taken over by the Equitable insurance group in 1985. Page 23

Mixed results at Chevron
The closure of Chevron's refinery in Richmond, California, will continue to affect the oil group's results in the fourth quarter. However, while special charges reduced third-quarter net income 34 per cent to $282m, earnings rose 24 per cent to $504m when these one-offs are excluded. Page 23

Digital beats expectations
Digital Equipment, the US computer group, reported stronger-than-expected first-quarter results, its fourth consecutive quarter of profitability after four years of heavy losses. Page 24

Wolseley warns on profits growth
The slump in housing markets prompted Wolseley, the world's largest distributor of heating and plumbing equipment, to warn it would struggle to achieve profits growth next year. Although the group reported a 21 per cent increase in pre-tax profits, from £202.3m to a record £245.4m ($380m) for the year to July 31, Mr Jeremy Lancaster, chairman, issued a particularly downbeat assessment of trading conditions. Page 26

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
BMW	742.2	+	10.2
Hoechst	349.5	+	7.5
Porsche	618	+	28
Falls			
CKAG Col Prf	820	-	30
DLW	311	-	9
Varta	295	-	10
NEW YORK ($)			
Rises			
Chris Schwab	24½	+	1
UAL	176⅞	+	5⅞
US Hlthcare	38¼	+	1¼
Utd Hlthcare	53	+	2¼
Falls			
Dell Computer	92¾	-	2½
RJR Nabisco	29⅝	-	2
LONDON (Pence)			
Rises			
Hozelock	417	+	21
Magnum Power	142	+	26
Northamber	211	+	16
Falls			
Eidos	460	-	22
Expro Intl	259	-	14
Ranger Oil	335	-	35
TORONTO (C$)			
Rises			
Fulcrum Tech	29¾	+	1½
Hummingbird	59	+	3
Nthn Telecom	45⅞	+	2¾
Falls			
Dundee BncpB	12	-	1¾
Formation Cap	7½	-	1
MNT Ltd	15¼	-	1½
PARIS (FFr)			
Rises			
Accor	558	+	12

BIC	474	+	16
Gen des Eaux	443.5	+	20.4
Falls			
Bouygues	469	-	13.2
Cred Lyon	227.6	-	7.4
Immobanque	690	-	35
TOKYO (Yen)			
Rises			
Kokin Mand	719	+	39
Falls			
Fudo Const	953	-	22
M'shita Refr	850	-	25
Okuma Corp	755	-	27
Takara Shuzo	765	-	18
Yuasa Corp	520	-	15
HONG KONG (HK$)			
Rises			
HK Daily News	1.12	+	0.12
Ngai Lik Ind	4.3	+	0.32
Pam & Frank	1.3	+	0.17
Falls			
Guangzhou Shp	2.45	-	0.20
Luoyang Glass	2.525	-	0.22
New Wrld W96	11.35	-	0.45
BANGKOK (Baht)			
Rises			
Alphatec Elec	324.0	+	16.0
Chiangmai Frz	44.0	+	2.25
Tonghua	35.0	+	3.0
Falls			
Interlife	54.50	-	6.0
Sahaviriya	43.50	-	3.75
TS Life	33.75	-	3.75

New York and Toronto prices at 1.30pm.

RJR shares slide on profits warning

By Lisa Bransten in New York

Shares in RJR Nabisco, the US tobacco and food group, sank 7 per cent, or $2¼, to $29⅝ in early afternoon trading yesterday after the company forecast lower-than-expected earnings for this year and next.

After reporting third-quarter earnings in line with analysts' expectations before a one-off charge, RJR said it expected to earn $2.30 per fully diluted share this year – 13 cents below the mean analyst forecast. RJR also forecast earnings of $2.55-$2.60 a share next year – lower than expectations of $2.87 a share.

The company attributed the slower earnings growth next year to expenses incurred from accelerated growth in the international tobacco business, lower earnings from its Nabisco food group and expectations that taxes would increase next year.

The lower share price renewed speculation about a possible takeover of the company.

In August, the shares began rising from their price of about $28 after it emerged that Mr Bennett LeBow and Mr Carl Icahn, takeover specialists who have sometimes worked as partners, had separately received permission from the Federal Trade Commission to take up to 15 per cent of the company.

However, the weak performance might put off potential new owners. "The results are disappointing so maybe it's worth less than they thought," said Ms Leigh Ferst, analyst at S.G. Warburg in New York.

In the third quarter, net income at RJR increased 7 per cent to $232m, or 61 cents per fully diluted share, from $216m or 57 cents, last year. After a charge to redeem $409m of Nabisco debt, earnings per share came to 56 cents.

Most of the increase in net income was due to lower taxes. Operating income at the company fell 5 per cent to $641m, from $678m, as the company stepped up marketing efforts in both the food and tobacco groups.

Worldwide tobacco sales were flat at $2bn in the third quarter but operating income in that division slipped 3 per cent to $563m from $580m. International tobacco sales rose 3 per cent driven by the strength in western Europe and Asia which offset weakness in the republics of the former Soviet Union and in the Middle East.

In the US, net sales from tobacco slipped 2 per cent to $1.2bn, but the company said it believed its market share was stabilising because of new marketing efforts.

Analysts were sceptical. "They think there's going to be a rebound in the fourth quarter, but that's easier said than done," said Ms Ferst.

Prudential's move marks response to growing competition in personal financial services

UK life group to enter savings and mortgage markets

By Alison Smith in London

Prudential Corporation, the UK's largest life assurance and investment group, is to open a bank and enter the personal savings and mortgage markets before the end of next year.

The Pru's plan, announced yesterday alongside its application for a deposit-taking licence from the Bank of England, marks a development in the restructuring of the UK personal financial services sector. It is the first large-scale attempt by a life group to combine life assurance with banking services. Previous moves into "bancassurance" – the bringing together of financial services – have come from banks and building societies expanding into life and investment policies.

Prudential shares closed up 3½p at 390½p.

Mr Peter Davis, Prudential chief executive, said the operation would widen the range of products sold by the Pru's 6,500-strong direct sales force, and would provide telephone and postal banking services.

The Pru was investing £20m ($31m) this year and up to £50m next year, but should still be able to operate from a low cost base because the business would not require a branch network.

The argument for life assurers offering deposit accounts has been strengthened by tougher competition from banks and building societies. Life groups now run a greater risk of losing customers when policies mature and customers pay those cheques into savings accounts.

This was one reason advanced by Scottish Widows, a mutual insurer, for launching a banking subsidiary earlier this year.

But Prudential surprised its competitors by its plan to enter the mortgage market as well. Mr Davis said that the group already arranged about £700m of mortgages for its customers each year, using a panel of lenders.

Trevor Humphries

Michael Harris (left), formerly chief executive of First Direct bank, will head the Prudential's bank operation. With him is Peter Davis, group chief executive

While the Pru's existing 6m-strong customer base would be the prime market for its mortgage lending, Mr Davis also envisaged offering home loans over the telephone.

Prudential has recruited Mr Mike Harris, former chief executive of First Direct, the telephone banking arm of Midland Bank, to run the new operation.

Editorial Comment, Page 19;
Lex, Page 20;
Background, Page 26

Charges drag down Times Mirror

By Christopher Parkes in Los Angeles

Times Mirror, the ailing media group, yesterday reported a net loss of $299m, or $2.98 a share, for the third quarter after absorbing $360m in restructuring charges. The restructuring involves the loss of 2,200 jobs, mainly from its core newspaper publishing operations.

The company, best known for the Los Angeles Times, Newsday and The Baltimore Sun newspapers, said further restructuring expenses of up to $180m would result in losses continuing in the fourth quarter.

Excluding the charges for closures, property losses and staff cuts, earnings for the quarter totalled $37m, or 21 cents a share, compared with $36m, or 28 cents, last time.

The restructuring, which has reversed most of the expansions in recent years, would cut operating costs by at least $115m in a full year, the company said. Full benefits would be felt in 1996, as would the effect of closing businesses which were expected to report losses of $50m next year.

The company said the measures already undertaken would result in savings which would cover the $340m cash cost of restructuring within three years.

Mr Mark Willes, the new president and chief executive who recently shut down several sections of the LA Times, including regional supplements and international news and opinion pages, closed The Baltimore Evening Sun and axed the well-regarded New York edition of Newsday, yesterday forecast substantially improved profitability.

He said he expected much better results in 1996, even after absorbing an expected increase in newsprint costs of up to $100m. Of the total billed for restructuring expenses, about $210m will be spent this year with the balance going in 1996.

Also, despite the size of the third-quarter deficit, the expected loss in the last quarter and the fact that the charges will exceed operating income, the group said it did not expect a net loss for the full year thanks to the gains from the first-quarter disposal of its cable television operations.

The publishing business did marginally better in the quarter than in the same period last year. Operating profits inched up to $35m on revenues of $486m, compared with $33m on revenues of $493m a year earlier.

Matsushita rises 10% despite lower sales

By Michiyo Nakamoto in Tokyo

Matsushita, Japan's largest consumer electronics maker, brushed aside a slump in sales in the first half of the year and increased recurring profits by 10 per cent, mainly by cutting costs and raising manufacturing efficiency.

The parent company's recurring profits – before extraordinary items and tax – rose from Y37.4bn a year ago to Y41.2bn ($411.8m), in spite of a 2 per cent decline in sales from Y2,204bn to Y2,162.2bn. Net profits rose 16 per cent to Y25.5bn.

The improved results came amid continuing weak demand in many product sectors, a strong yen, declining exports and severe price falls, Matsushita said.

They reflect a clear division between conventional consumer electronics, such as video and audio products which are struggling, and sectors such as electronic components and batteries which are buoyant.

In the first six months, consumer electronics makers were particularly hard hit by price competition in areas ranging from audio-visual products to CD-Roms. Matsushita said that the fall in prices had led to a Y20bn decline in overall sales.

Exports were also sharply down in many sectors because of the high yen and the shift of production overseas. The yen's appreciation against the main currencies had shaved another Y16bn off overall sales.

In particular, a sharp drop in sales of colour televisions and video recorders to China after a change in the tax regime adversely affected Matsushita. Exports to China which totalled Y70bn were down 45 per cent from the previous first half. Sales to the US were also 11 per cent lower.

The decline in exports affected the home appliances division, leaving sales flat in spite of strong domestic demand for air conditioners and refrigerators in an unusually hot summer.

The strongest performances came in the electronic components and batteries divisions which were supported by strong demand from the information and communications industries.

Sales of semiconductors and cathode-ray tubes were buoyant as a result of the strong growth in the personal computer market, while rechargeable batteries remained in demand for portable information and communications equipment, such as cellular phones.

In spite of continuing difficulties, Matsushita expects better results for the full year than initially forecast because of the strong first half. Full-year sales are expected to be flat at Y444bn but recurring profits are forecast to rise 26 per cent to Y110bn. Net profits are expected to rise to Y66bn from Y52.7bn.

Barry Riley

When equity market makers are under stress

International regulatory arguments have been proceeding for some time over the appropriate level of capital which should be required to back the trading positions of banks and securities firms in various financial instruments.

At present the Basle Committee of international banking regulators is ushering in a more flexible regime which encourages banks to use internal value-at-risk models. The new rules will be introduced in 1998. But there is a conflict with the European Union's Capital Adequacy Directive, due to be implemented next January, and with regulatory regimes in the UK and the US.

A paper by Elroy Dimson and Paul Marsh of the London Business School focuses on the particular problems of equity market makers.

If inappropriate capital adequacy regimes are imposed on equity market makers the result is likely to be that excessive amounts of capital are required, and these securities firms may be encouraged to act in perverse ways. The paper, "Stress Tests of Capital Requirements", examines the ability of various regulatory models to withstand worst-case scenarios.

In practical terms, much depends on the extent to which various risks can be netted off – essentially, through short positions against long positions, but also through diversification. General banking value-at-risk models, of which the best-known is J.P. Morgan's RiskMetrics (a simplified version of which is available to other banking institutions) have the disadvantage for specialist equity market makers that they focus upon the interrelationships between different markets rather than on the particular internal characteristics of the stock market. Essentially, they are designed to deal with index-based derivative instruments rather than individual securities.

No doubt J.P. Morgan would say the RiskMetrics model is being misapplied to the trading books of specialist equity market makers. More sophisticated versions of RiskMetrics incorporate the beta coefficients of individual stocks. But Dimson and Marsh want to make the point that the naive application of standard models could have unfortunate results.

The naive application of standard models could have unfortunate results

In practice, three other capital regimes are being applied. The Securities and Exchange Commission in the US imposes a "comprehensive approach". This is shown, by historical testing involving actual trading books of 16 UK equity market makers over various short-term periods between December 1986 and September 1988, to have made poor use of capital and exposed market makers to the greatest level of systemic risk.

The comprehensive system imposes the same charge to all positions, short or long, and although in practice the SEC allows a minor offset, the approach remains inefficient. Its performance is especially poor when market makers have net short positions.

An alternative "building-block" approach is embodied in the EU's Capital Adequacy Directive. The charge is based partly on the net and partly on the gross (long plus short) exposure. This method performed rather better than the comprehensive approach in the Dimson-Marsh stress tests but is regarded as liable to provide perverse incentives for equity market makers. In particular, it fails to reward firms for running well-diversified books.

The best method is shown to be the simplified portfolio approach which has been used in the UK since the implementation of the Financial Services Act. In spite of simplifications, notably that all betas are assumed to be equal, this has proved to be a reliable and economical approach to the risk of portfolios with limited diversification.

The stress tests showed that the comprehensive approach would require capital averaging 20.8 per cent of the gross value of the book to cover the ups and downs of every chosen short-term period of market stress, while the building block method would need 19.4 per cent on average. The simplified portfolio approach required just 8.8 per cent. As for the value-at-risk method, the requirement was 293 per cent of the gross book.

Much of the regulatory activity so far has been misguided, say Dimson and Marsh. But the portfolio approach points the way ahead, and not just for equity trading books.

Rumblings of discontent greet Ferfin's rights plan

The issue could prove even more controversial than the stalled 'SuperGemina' deal, writes Andrew Hill

Deals masterminded by Mediobanca, the secretive Milan merchant bank, are very rarely scrapped. They are almost always postponed, with the delay usually blamed on adverse market conditions.

The excuse was used again on Monday by Gemina, the investment company controlled by Fiat, Mediobanca and the Italian business establishment. In the latest in a series of short, nocturnal statements, Gemina said it had put off the controversial plan to merge with Ferruzzi Finanziaria (Ferfin), the holding company, until the return of "general conditions of balance and stability".

Gemina claimed yesterday that the "SuperGemina" plan was alive, and that experts were still working on valuation of the companies involved. The investment company is due to make an announcement about the situation by November 20 – which should include an update on the position of RCS, the group's troubled publishing and media subsidiary – but the odds are against anyone reviving the merger by then.

The situation at RCS is simply too difficult to sort out in the short term. Gemina's new three-man executive committee, appointed two weeks ago at another late-night board meeting, had already called for more time to examine the last 18 months of losses at RCS. Both Gemina and RCS are under investigation following allegations that accounts were falsified.

Meanwhile, Mediobanca has recognised the flimsiness of the "adverse market conditions" excuse, by arranging for an unexpectedly large capital increase at Ferfin itself. The holding company, which controls Montedison, the industrial group, wants to raise L1,035bn ($640m) with a one-for-two rights issue.

The new plan means Ferfin and Montedison can stop worrying about the risk of being absorbed by the ailing Gemina. Yesterday, the initial reaction of small shareholders and the stock market was one of relief that the SuperGemina plan had been shelved. But some critics believe the Ferfin rights issue could prove to be even more controversial.

Ferfin's reasons for the issue are clearly stated. Its debts are still high, partly because it is behind schedule with its attempts to raise L1,500bn from property sales by 1997. Two years into the sell-off programme, it has only realised L120bn. A rights issue, Ferfin says, will eliminate L400bn of short-term debt, repay L300bn of looming consolidated debts, and provide L190bn to underwrite a capital increase at Fondiaria, the insurance company that Ferfin controls.

But the rights issue seems to reverse one of the objectives of the SuperGemina plan, which was to provide an escape route for Ferfin's former creditor banks, now among its biggest shareholders. Now, instead of reducing their investment – itself a legacy of the near-collapse of Ferfin and Montedison in 1993 – the banks find themselves invited to stump up even more cash, albeit offset by the partial repayment of outstanding loans. If they renounce their rights, the shares could be taken up by an underwriting syndicate, which will certainly be headed by Mediobanca and is likely to include its traditional banking allies, Credito Italiano, Banca Commerciale Italiana and Banca di Roma.

Yesterday, there were already rumblings of discontent from the banking sector, which has in the past simply bowed to Mediobanca's dominance. A number of bankers, analysts and fund managers believe the rights issue is at best a classic "poison pill", designed to deter predators from buying up Ferfin at a depressed price. It could then be broken down into its valuable component parts, which include Montedison and its profitable chemicals, agribusiness and energy subsidiaries.

Other observers believe Ferfin needs the cash to fulfil its unwritten promise to buy companies from Mediobanca's closest ally, Fiat, which had already forecast a probable capital gain of L150bn to L200bn from the sale of four chemicals and bioengineering subsidiaries to SuperGemina.

Some even described the rights issue as an attempt by Mediobanca and its allies to take control of Ferfin and Montedison by another, even less transparent route. Once this was achieved, the original merger could be disinterred - "like a zombie", as one Italian paper put it yesterday. "This plan looks a lot less noble than the SuperGemina deal, which at least had a certain dignity about it," said one irritated banker yesterday.

What is unclear is how keen Mediobanca's opponents will be to use Ferruzzi-Montedison as an excuse for waging open war. Not only is Mediobanca still Italy's most powerful and most capable financial institution. Mr Enrico Cuccia, its 87-year-old honorary chairman, feels a particular sense of responsibility for the future of Montedison, which he helped create. Rival banks will have to show much greater spirit than they have until now if they decide to take him on.

Deutsche Post bid for Postbank backed

By Michael Lindemann in Bonn

Deutsche Post's efforts to take over Postbank, its state-owned sister organisation, were boosted yesterday after Mr Arne Börnsen, the head of the Bundestag postal committee, said a takeover would keep open the largest possible number of post offices.

While the committee has no formal say in the way the contentious takeover should be decided, the comments by Mr Börnsen, a member of the opposition Social Democratic party, will provide important political support for Mr Wolfgang Bötsch, the minister for post and telecommunications, who ultimately decides whether the bid goes ahead.

Deutsche Post said allowing the takeover would improve the profitability of postal branches.

Mr Bötsch will appear before the committee this afternoon to explain his views on the takeover. However, a decision is not expected until an international investment bank has drawn up a report on the takeover, a process expected to last several weeks.

Six banks – Salomon Brothers, Morgan Stanley, J. P. Morgan, Merrill Lynch, Schroders and Union Bank of Switzerland – attended briefings in Bonn yesterday, during which the requirements of the report were outlined. One of the banks is expected to be nominated on November 2.

In a surprise bid, still rare in Germany, Deutsche Post, the nationwide postal service, offered DM3.1bn ($2.2bn) for a 75 per cent stake in Postbank several weeks ago. Deutsche Post wants to take a 40 per cent stake with a further 20 per cent going to Deutsche Bank and 15 per cent to Schweizerische Rückversicherung.

Mr Friedel Neuber, head of WestLB, the leading public sector bank, is one of several bankers who have complained recently that Deutsche Bank is playing too big a role in the Postbank takeover.

EBRD criticises Slovnaft management buy-out

By Vincent Boland in Prague

The European Bank for Reconstruction and Development yesterday sharply criticised a management buy-out at Slovnaft, the Slovak petrochemical group, in which the bank bought a 10.5 per cent stake earlier this year. The sale of 39 per cent of Slovnaft to 19 of its top executives came after the company's $112m global share offering, shunned by investors and which the EBRD stepped in to rescue.

Mr Jiri Huebner, head of the EBRD's Slovak and Czech team, said yesterday the bank was "unhappy with a number of aspects" of the MBO, and was discussing its concerns with Slovnaft and the Slovak National Property Fund, which sold the stake to management.

At issue are the terms at which the stake, with a book value of Sk6.4bn ($218m), was sold to Slovintegra, the buy-out vehicle.

Mr Huebner said the sale was executed at less than market value without a competitive tender. It was also not signalled in the prospectus issued to coincide with the GDR issue, which was led by PaineWebber, the US investment bank.

"Had we known what the terms of the MBO were, we probably would not have become an investor under the terms that we did," Mr Huebner said. The GDR was priced at Sk1,000 a share and the EBRD paid some $59m for its stake.

The EBRD has proposed "about five" solutions and one is now under further discussion, but Mr Huebner would not say if the EBRD is seeking a "buy-back" deal for its stake.

The EBRD's stance reflects growing concern at the Slovak government's use of MBOs, without competitive tenders, to reduce its stakes in industry.

Mr Huebner said that while the bank supports MBOs as a form of privatisation it was inappropriate in Slovnaft's case because the company is too big.

BCP posts advance at nine-month stage

By Peter Wise in Lisbon

Banco Comercial Português, Portugal's biggest commercial banking group, yesterday reported a net consolidated profit of Es14.22bn ($96.8m) for the first nine months of 1995, up from Es13.16bn in the same period last year.

The results were not directly comparable, as BCP's total assets more than doubled in the intervening period – from Es2,052bn to Es5,455bn – as a result of its acquisition of Banco Português do Atlântico for Es308bn in March.

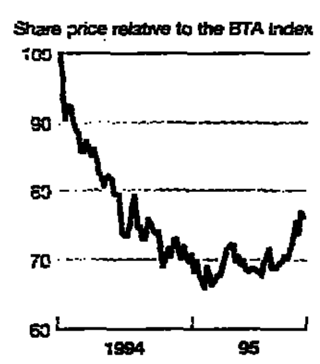
Cash flow jumped to Es106.4bn in the first three quarters of 1995 from Es42.9bn in the same period in 1994 following the takeover of BPA, which increased BCP's share of Portugal's total banking assets from 8 per cent to 20 per cent.

Loans totalled Es1,997bn in September, down from Es2,001bn in June, but up from Es817bn a year earlier. Earnings per share rose 8 per cent over the year to September, to Es129.7. Cash flow per share jumped 56.5 per cent to Es961.1.

BCP said earnings growth in the first three quarters was mainly driven by increased income from commissions, bond trading and insurance premiums. BCP is the only Portuguese bank that is allowed to consolidate its insurance activities fully.

BCP

Share price relative to the BTA index



Source: FT Extel

A Lisbon analyst said BCP's profit growth had been restricted by the cost of taking over BPA, including goodwill depreciation and restructuring costs, and by the narrowing of net interest margins – the difference between the rates at which banks raise and lend funds.

As a result of tougher competition between banks in Portugal, interest margins as a whole are at their lowest level since they began falling from a peak of 5.6 per cent in 1990. BCP said its margin was 3 per cent in the third quarter.

BCP is the least dependent of Portugal's biggest eight banks on net interest income, which represented 54 per cent of gross revenue in 1994.

Mr Jorge Jardim Gonçalves, BCP president, said yesterday the fall in margins appeared to be bottoming out.

AssiDomän loses race for Sepap control

By Vincent Boland

AssiDomän, the Swedish pulp and paper group, may be forced to rethink its strategy towards Sepap after Stratton, the US investment company, said it controlled a majority of the Czech paper mill.

The Swedish group bought 32 per cent of Sepap earlier this year and signalled its intention to take its stake to more than 50 per cent.

However, the US investment company, owned by Mr Michael Dingman, said yesterday it owned between 20 per cent and 35 per cent of Sepap.

It bought the shares from the Harvard investment funds run by the Bahamas-based Czech entrepreneur Mr Viktor Kozeny. "Voting with the Harvard Funds, as agreed, Stratton now controls a majority of outstanding Sepap shares," Stratton said.

Mr Tomas Sabatka, Sepap's chief executive, said last night he was "very happy with the change of ownership". He suggested a proposed share issue by his company, through which AssiDomän had planned to take its stake to 51 per cent, would have to be discussed between Stratton and AssiDomän. "The situation has changed. First there will have to be negotiations between the co-owners," Mr Sabatka said. AssiDomän could not be reached for comment.

There is speculation in Prague financial markets that Stratton might be seeking an eventual link-up between Sepap and Biocel Paskov, another Czech paper group. Biocel is believed to be among eight companies in which the US investor bought stakes from Harvard in a $140m deal.

Biocel has already expressed its interest in bidding for a 51 per cent stake in Olsanske Papirny, a third Czech paper group. Czech National Property Fund, the state holding company, is seeking buyers for the stake in an international tender.

BK Vision seeks damages of SFr242m

By Ian Rodger in Zurich

BK Vision, the investment company controlled by Mr Martin Ebner's BZ financial group, has stepped up its legal battle against Union Bank of Switzerland, charging the eight members of the executive committee of the bank's board with failing to fulfil their responsibilities as directors.

It is demanding the eight, all pillars of the Swiss business community, pay SFr242m ($214.9m) in damages. BK Vision, which is UBS's largest shareholder, has already challenged in a civil suit the validity of a vote at an extraordinary shareholders' meeting last November to unify the bank's share structure. It has also laid criminal charges against Mr Robert Studer, UBS chief executive, and other executives, accusing them of wilfully damaging the bank. UBS denies all the charges.

BK Vision claims UBS executives oversaw the purchase of large volumes of the bank's registered shares in advance of the vote even though it was almost certain that the value of those shares would decline after the vote.

It said the SFr242m figure was based on its estimate of the bank's losses arising from its transactions in its own shares. In UBS's 1994 annual report, the group revealed it had written down the value of its holdings of its own shares at the end of the year by SFr236m. But the bank has pointed out that this did not represent an actual loss.

The eight accused directors are Mr Nikolaus Senn, UBS chairman; Mr Robert Favarger and Mr François Milliet, vice-chairmen; Mr Hannes Goetz, chairman of Swissair; Mr Markus Kündig, a leading Swiss publisher; Mr Rolf Meyer, finance director of Ciba, the health products group; Mr Alfred Schindler, chairman of Schindler, the elevators group; and Mr Peter Spälti, chairman of Winterthur Insurance.

EUROPEAN NEWS DIGEST

Cultor in talks to buy Pfizer unit

Cultor, the Finnish group, said it was negotiating with Pfizer of the US to acquire its food science business. Talks are expected to be concluded by the end of the year. Pfizer said it had signed a letter of intent and started exclusive discussions, but did not disclose terms. The division, which develops and manufactures specialty ingredients for the food industry, had sales of $232m in the first nine months of 1995, up 7 per cent from a year earlier. Last year it generated sales of $304m and currently employs about 650 people.

Mr William Steere, Pfizer chief executive and chairman, said that for several years the food science group had made significant progress in developing and marketing innovative specialty food ingredients, but at the same time, Pfizer had increasingly focused on its healthcare businesses. Cultor said if the transaction went through, it would establish itself as "one of the leading food ingredients companies in the world, present in all key geographical markets," it said. The move would be in line with Cultor's shift in emphasis from bulk commodities to value-added products.

AFX News, New York and Helsinki

GE Capital in Budapest buy

GE Capital, the financial services arm of General Electric of the US, has signed a memorandum of understanding with the Hungarian government to take a majority stake in Budapest Bank together with the European Bank for Reconstruction and Development. The purchase would be the latest in a string of European acquisitions by GE Capital. The group, whose parent company is one of the largest investors in Hungary, had also expressed an interest in Creditanstalt Bankverein before its privatisation was delayed by early Austrian elections.

GE Capital only recently entered the bidding for Budapest Bank, one of Hungary's leading commercial banks, which has been a candidate for privatisation for some time. Budapest Bank reported pre-tax profit of Ft2.51bn (US$19m) on assets of Ft193bn last year. It also received Ft12bn in state securities from the government to make it more attractive ahead of privatisation. The bonds must be returned if the bank is not sold by the end of the year. *Virginia Marsh, Budapest*

Axa to purchase fund managers

Axa, the French insurance group, said its Alliance Capital Management subsidiary had agreed in principle to buy Cursitor-Eaton Asset Management and Cursitor-Eaton Holdings for a $141.5m mixture of cash and Alliance shares. Cursitor-Eaton Asset Management manages about $10bn of funds, particularly pension funds, for US and overseas institutional investors. *AFX News, Paris*

Novo Nordisk sells plant

Novo Nordisk, the Danish pharmaceuticals and industrial enzymes producer, has sold its small biological plant protection business to Abbott Laboratories of the US. No financial details were revealed about the deal, which was concluded without the mediation of a merchant bank. The biological plant protection business, in which bugs are used to eradicate other bugs, accounted for less than 1 per cent of group turnover, with sales of about DKr90m ($16.69m) in 1994, according to Novo Nordisk.

The divestment is part of a programme to focus on four core areas, diabetes care, hormone replacement therapy, human growth hormone, and industrial enzymes. In the 1994 annual report Novo Nordisk reported considerable success with one of its plant protection products, called Foray, for fighting gypsy moth larvae in North American forests and nun moth larvae in Polish forests. *Hilary Barnes, Copenhagen*

Cap Gemini cuts losses

Cap Gemini Sogeti, the French software group, posted a loss of FFr19m ($3.88m) in the six months to June compared with a loss of FFr115m in the same period last year. For the full year, the group said it expected to report a positive net result. Cap Gemini said first-half sales rose 7.7 per cent to FFr5.5bn in the period. Orders at the end of June were 19 per cent above end-December levels. Operating profits in the period rose 34 per cent to FFr324m. *AFX News, Paris*

Böhler-Uddeholm advances

Böhler-Uddeholm, the world's largest maker of tool steels, reported a further surge in pre-tax profits in the third quarter from Sch56m to Sch287m ($29.44m) on sales up 9.5 per cent at Sch4.6bn. The partially-privatised Austrian group, which had to scale down its initial public offering of shares in March because of market conditions, said reduced costs and higher prices and volumes contributed to the much improved result.

Pre-tax profits in the first nine months of the year advanced from Sch160m to Sch933m. Sales were up 14.7 per cent to Sch13.8bn. Böhler said its order book was full through to the second quarter of next year. The average price increases of 2 per cent to 3 per cent planned for the second half were "largely" implemented.

Sales of special steel long products (bars and wire rod) rose from Sch6.7bn to Sch8.3bn in the first nine months. Welding consumable sales were flat at Sch1.5bn and strip steel sales rose from Sch1.3bn to Sch1.7bn. *Ian Rodger, Zurich*

Leisure group shares re-sold

Demand at well above the offer price for shares in Nouvelles Frontières, the French leisure group, yesterday prompted the seller to put them back on the market at 10 per cent above their introductory asking price last Friday of FFr73,350.

Ms Catherine Cadepond, the divorced wife of a founding shareholder in the group, put 10 of her 566 shares onto the French hors-côte market after she failed to agree terms for a private sale of the shares to Nouvelles Frontières, in which all other shares are held by a small number of original investors. Europe Finance et Industrie, which advised on the share offer, said yesterday that there had been more than 20 bids with prices of up to FFr120,000 a share.

Under market rules, a transaction cannot be completed if the offer price was more than 10 per cent above the asking price. The shares must go back on offer at this new level until the final price falls within the margin. *Andrew Jack, Paris*

BMW sales ahead 5.3%

BMW, the German luxury cars group, said group sales, excluding Rover, climbed 5.3 per cent to DM25.06bn in the first nine months of the year from DM23.8bn in the same period last year. Car production, excluding Rover, rose 10.7 per cent to 459,051 units from 414,599. BMW said Rover car production totalled 365,000 units in the reporting period, up 3 per cent from a year earlier. Rover sales totalled DM8.87bn, the company said, without giving year-earlier figures. Including Rover, group car deliveries totalled 797,849 units.

AFX News, Munich

■ Operating profits at Iberia, Lineas Aereas de Espana's parent company, rose from Pta3.9bn to Pta25.45bn ($211m) in the nine months to September 30, said Mr Juan Manuel Eguiagaray, minister for industry and energy. Iberia's operating costs fell to Pta319bn in the period from Pta394bn. Mr Eguiagaray said strike threats could endanger the airline's bid to win EU approval for a Pta130bn capital injection by the Spanish government. *AFX News, Madrid*

■ Delta Air Lines of the US, Swissair, Sabena of Belgium and Austrian Airlines are examining proposals which could lead to joint branding of the four airlines. Delta and Swissair hold 5 per cent stakes in one another and Swissair owns 49.5 per cent of Sabena and 10 per cent of Austrian. The four have applied to the US authorities for anti-trust immunity so that they can integrate their transatlantic flight schedules.

Michael Skapinker, Aerospace Correspondent

هكذامن الأصل

INTERNATIONAL COMPANIES AND FINANCE

Telefónica unit buys into Argentine cable TV group

By David Pilling in Buenos Aires

Tisa, the international arm of Spain's Telefónica, is to buy 25 per cent of Multicanal, the Argentine cable TV group, intensifying the battle for Argentina's cable market.

Tisa has signed a letter of intent to invest an unspecified amount in Multicanal, which is controlled by Argentina's Clarin media group.

Clarin, which also owns Argentina's best-selling newspaper, holds 70 per cent of Multicanal, while Citicorp Equity Investment has the remaining 30 per cent. After a new issue of shares, all of which would be bought by Tisa, Clarin would be left with 52.5 per cent and CEI with 22.5 per cent.

Mr Omar Dirrocco, executive director of Multicanal, said yesterday that Tisa's investment would probably run to hundreds of millions of dollars. CEI, which bought its 30 per cent stake in Multicanal last August, paid $150m, he said.

Mr Dirrocco said the injection of capital would allow Multicanal to "expand in the Argentine market and to acquire new technology".

Argentina, where at least 40 per cent of homes are hooked up to cable, has by far the highest cable penetration in Latin America and one of the highest in the world.

There are some 1,400 cable companies in Argentina, though the market is dominated by Cablevision, controlled by TCI of the US; VCC, owned by Time Warner; and Multicanal. Last year, TCI paid nearly $800m for an 80 per cent stake in Cablevision.

Ms Dolores Ramos Oneto, telecoms analyst at Banco Privado, said Multicanal was building up a network in preparation for the deregulation of the telecommunications sector, due no later than the year 2000.

Multicanal, which began after its competitors in 1989, did not have the "power or potential" of its two rivals, she said. The company wanted to improve the scope and efficiency of its network as quickly as possible.

Mr Dirrocco said Multicanal had 580,000 subscribers, which he claimed was more than Cablevision. Data on Argentina market share are extremely inaccurate.

The Multicanal deal will require approval from the Comision Nacional de Telecomunicaciones, the industry regulator. Local telephone operators are not permitted to offer cable services. The CNT recently objected to an advertising campaign by Telefónica de Argentina, controlled by Tisa, in which the company appeared to be offering cable services.

Mr Dirrocco saw no reason why Tisa, which he said was entirely separate from Telefónica de Argentina, should be prevented from entering the cable market. "In theory it is not prohibited," he said.

Chevron held back by one-off charges

By Christopher Parkes in Los Angeles

The closure for re-fitting of Chevron's refinery in Richmond, California, will continue to affect results in the fourth quarter, the US oil concern said yesterday.

However, while special charges reduced third-quarter net income by 34 per cent to $282m, earnings rose 24 per cent to $504m when these one-offs were excluded.

Charges totalled $222m and included $168m in provisions related to the impending disposal of Chevron's real estate development business.

Mr Ken Derr, chairman, said operating earnings increased almost $100m in the quarter despite flat crude oil and lower natural gas prices.

Profitability, in terms of return on capital employed, had risen to 10.2 per cent in the 12 months to the end of the third quarter, compared with 8.6 per cent in the 1994 calendar year and Chevron's target of 12 per cent.

Mr Derr said the Richmond refinery would be closed for about six weeks in preparation for production of new petrol varieties needed to meet California's vehicle emission laws. The plant would make Chevron the biggest producer of the new fuels, he added.

In common with other US oil majors which have reported so far, Chevron announced far better results – especially in its chemicals operations – than analysts had expected. However, while noting the sector's earnings of $127m were almost double the 1994 figure, the group added that "prices for major products began to soften in the quarter".

● Phillips Petroleum also reported profits progress yesterday, raising earnings per share for the first three quarters to $1.37 compared with $1.23. It said chemicals margins – especially for ethylene and polyethylene – had improved substantially.

Net operating income in the sector almost doubled to $114m, against last year's third-quarter figure of $66m.

See Lex

Going back down a familiar path

DLJ returns to the New York Stock Exchange, writes Maggie Urry

There may be a sense of déjà vu at Donaldson, Lufkin & Jenrette this morning as shares in the securities firm once again trade on the stock market.

The firm, founded in 1959, went public in 1970, becoming the first New York Stock Exchange member to be quoted. It was taken over by the Equitable insurance group in 1985, but after 10 years DLJ is going public once more.

The plan is for Equitable to keep at least an 80.2 per cent stake in DLJ beyond the end of 1996, enabling it to consolidate DLJ for tax in that year. Thereafter, if employees take full advantage of options and a restricted stock plan, Equitable's stake could fall to 63.3 per cent by February 2000, with employees owning 21 per cent and the public the rest.

Having considered a flotation in 1993, but deciding against, Equitable looked for a buyer for DLJ early this year but apparently found no interest at the right price. Now, though, DLJ and its parent appear to have picked a good time for a flotation.

Indications before last night's pricing were that the issue had been well received and a price towards the higher end of the indicated $26 to $29 range was expected. That suggests the float will raise significantly more than the $240m minimum, which is being split roughly one-third:two-thirds between DLJ and its parent.

DLJ, which is lead managing its own float, brought forward the pricing of the shares by one day and increased the size of an issue of senior debt to be priced today.

Brokerage shares have been in favour this year as the recovery in stock markets has led to sharply rising profits after the difficulties of 1994, when repeated increases in interest rates hit the markets.

In the prospectus, DLJ estimated that net income for the first nine months of 1995 would be $121m, almost equalling the total for 1994. Profits would have been even higher but for a $25m pre-tax charge DLJ has provided against a short-term loan to a company which is in financial difficulties.

As well as coming at a particularly sensitive time, the charge takes the shine off DLJ's claim to have a more stable earnings stream than many of its competitors.

DLJ's prospectus boasts it focuses on doing business for clients, not itself, "an approach that reduces the company's exposure to market volatility".

Its strategy is to concentrate on lines of business where it has a good name and can earn a good return. The banking group concentrates on raising capital and advising companies on deals. Capital markets operations include research and trading of equities and fixed-interest securities, while the financial services arm brings more stability through its clearing business.

Moody's, the credit rating agency, commented when rating DLJ's senior debt issue that much of the group's growth had come through a selective approach to hiring people and allocating resources to particular businesses.

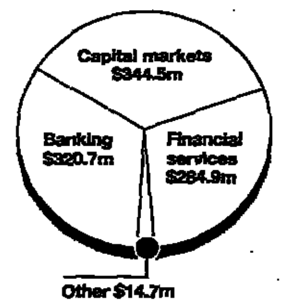
Even so, DLJ faces challenges along with the rest of the sector. Securities firms' share prices have come off the boil in recent days – partly, analysts suggest, following Mr Warren Buffett's decision not to exercise an option to convert $140m of preferred stock into Salomon shares.

Further ahead, the prospect of alliances between commercial banks and investment banks, following the expected lifting of Glass-Steagall restrictions, is expected to put pressure on investment banks with their lower capital backing.

With five and a half pages of the prospectus devoted to the risks DLJ faces, investors are well aware of potential problems. And Equitable's decision to reduce its stake in DLJ suggests it is seeking less volatility in its earnings. If DLJ cannot expect to break free from its sector, it must at least prove it can continue to outperform its rivals.

Donaldson, Lufkin & Jenrette

Net revenue
6 months to June 30, 1995
total: $964.8m

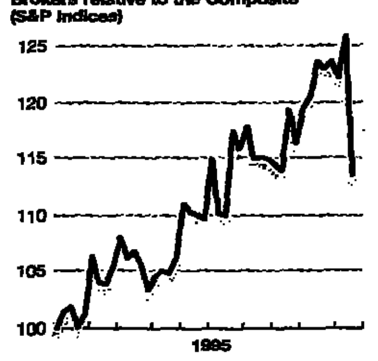


Source: Company

	Net income ($m)	Pre-tax return on average equity (%)
1990	13.0	5.0
1991	57.8	28.1
1992	147.0	61.5
1993	186.1	50.1
1994	123.0	23.4
1995*	79.5	28.9

* 6 months ended June 30

Brokers relative to the Composite (S&P Indices)



Melville joins US retailers shedding specialist chains

By Richard Waters in New York

Melville, a struggling US retailer, is to spin off two companies and sell two more, making it the latest in a line of retailers to shed specialist retailing chains.

The unbundling of Melville will leave the company, based in Rye, New York, concentrating largely around a drug store chain, CVS. Two other retail businesses may also be spun off at a later stage.

Melville joins a list of better-known retailers, such as Woolworth, Kmart and The Limited, which have carried out or discussed disposals of specialist chains recently. Though a successful retailing format during the 1980s, many such chains have suffered in the 1990s as spending habits have changed and big discount retailers have prospered.

Melville's move follows pressure from its largest shareholder, the California Public Employees' Retirement System, which earlier this year added the company to its list of underperforming investments.

During the 1980s, Melville was one of a number of US retailers to grow fast on the strength of its successful specialist retailers, with CVS and Marshalls, a discount clothing store, accounting for the bulk of the growth. In the 1990s, though, its profits have slumped. The company's after-tax earnings slipped 9 per cent last year, to $305m.

Melville had already announced a plan to sell Marshalls, in a deal valued at $550m that will lead to a fourth-quarter charge to profits of $195m.

The moves announced yesterday will take the total after-tax charge for the quarter to $780m, and the company said it would also consider a "substantial reduction" in dividend at its January board meeting.

The two businesses to be spun off are Melville's footwear businesses, based around three separate chains, and its toy retailer, Kay-Bee. Two other divisions – Wilsons and This End Up – will be sold, while two more that will remain with CVS may eventually be spun off as well, Melville added.

Mr Stanley Goldstein, chairman, said that "fundamental change is taking place in the retail industry", and that the company's plan would allow each business to pursue its own strategy. It would also leave the three companies in a better position to form their own investment plans and dividend policies, he added.

With 1,356 stores and sales last year of $4.3bn, CVS is one of the largest drug store chains in the north-eastern US. Melville's footwear business had sales of $1.8bn last year, while Kay-Bee's 1,1012 stores generated revenues of $1bn. Marshalls' revenues were $2.4bn.

Northern Telecom posts 43% advance

By Robert Gibbens in Montreal

Northern Telecom, Canada's international telecommunications equipment maker, posted strong gains in third-quarter sales and earnings, due mainly to continuing growth in its European and Asia-Pacific businesses.

Revenues were up 24 per cent to US$2.49bn, against $2bn a year earlier, and net profit was $80m, or 32 cents a share, up 43 per cent from $56m, or 22 cents, last time.

Orders totalled $2.69bn for the quarter, up from $1.95bn previously, reflecting strength in international markets.

Nortel's earnings for the nine months were $220m, or 87 cents a share, more than double the $108m, or 43 cents, in the comparable period a year earlier. Revenues were $7.2bn, up 17 per cent from $6.1bn a year earlier.

In the 1994 period Nortel posted a 29 cents a share gain on an asset disposal, bringing total earnings to 72 cents a share.

Orders for the nine months totalled $7.25bn, against $5.62bn.

Mr Jean Monty, president, said the 38 per cent gain in orders represented strong growth of switching, broadband, wireless and multimedia and data systems business. Recent awards in Mexico and the UK pointed to growing turnkey contract business.

The wireless, multimedia and data systems sectors did well in Europe, the US and Asia-Pacific in the third quarter, said Nortel, and switching network revenues rose significantly, chiefly in Europe.

Selling, general and administrative expenses were 18.8 per cent of revenues against 19.4 per cent in the third quarter of 1994, but were higher in the nine months reflecting rising investments in international wireless and broadband network markets.

Third-quarter R&D spending was $406m, or 16.3 per cent of revenues, against 14.7 per cent a year earlier; and in the nine months, $1.13bn or 15.7 per cent of revenues, against 13.3 per cent a year earlier.

INTERNATIONAL COMPANIES AND FINANCE

Stronger than expected result from Digital

By Louise Kehoe in San Francisco

Digital Equipment, the US computer group, reported stronger than expected first-quarter results, its fourth consecutive quarter of profitability after four years of heavy losses.

Net income for the quarter was $48m, or 26 cents a share, compared with a net loss of $131m, or 98 cents, for the same period last year. Total operating revenues were $3.27bn, up 5 per cent from a comparable $3.12bn. Revenue from ongoing businesses grew 11 per cent.

Gross margin for the quarter rose from 30.2 per cent to 32.2 per cent. Operating expenses dropped 12 per cent to $991m, the lowest level in eight years.

After cutting 12,300 jobs in the past year to end the quarter with about 61,500 employees, overall employment is expected to rise, Digital said.

Revenues from computer product sales, adjusted for divestments, rose 22 per cent to $1.8bn. Personal computer revenues were up 32 per cent for the quarter. Although this segment of Digital's business is operating at a loss, it should achieve profitability in the second half of the fiscal year.

Sales of Digital's Alpha systems, the company's core products, increased 40 per cent, with much of the growth coming in Alpha servers for computer networks. Traditional VAX minicomputers, however, continued to decline and now represent only 5 per cent of product revenue.

Digital ended the quarter with $1.5bn in cash, down from $1.6bn at the end of the previous quarter. Shortages of components caused some manufacturing delays and resulted in higher than planned inventories, the company said.

● Amdahl, the US mainframe computer manufacturer, reported improved earnings, despite a drop in revenues.

Net income for the quarter was $20m, or 17 cents a share on revenues of $350m, against $14.3m, or 12 cents, on revenues of $364m a year earlier.

Sales of computer upgrades continued to outpace sales of new systems. New businesses, open systems computers, consulting and applications development software accounted for 15 per cent of revenues in the quarter, up from 9 per cent in the same period last year.

Unisys in the red in third quarter

By Louise Kehoe in San Francisco

Unisys, the US computer manufacturer, reported a net loss for the third quarter of 1995. Results from US and European operations were weak, the company said, and sales of traditional mainframe computers declined.

However, Unisys' newer businesses, including departmental servers and desktop computers, information services and desktop computer services, registered double-digit growth rates during the quarter.

Net losses for the quarter were $32.2m, or 36 cents a primary share, against net income from continuing operations of $30.8m, or 1 cent a share after preferred dividends last year.

In May, Unisys completed the sale of its defence business. Total net income for the third quarter last year, including the defence business, was $42.9m or 8 cents a share.

Revenues declined slightly from $1.48bn to $1.46bn. Strong growth in information services and personal computer systems was offset by a decline in large computer systems sales, the company said.

Earlier this month, Unisys announced plans to realign its operations into three independent business units: information services; computer systems; and global support services, which will reduce costs by at least $400m by the end of 1996.

"Although the realignment will have a disruptive effect on our results in 1995, it should put us in position to achieve visible operational and financial progress in 1996," Mr James Unruh, chairman and chief executive, said.

Unisys will take a restructuring charge in the fourth quarter to cover the costs of the reorganisation. The size of the charge and impact on employment are yet to be determined.

For the year to date, net income from continuing operations was $39.7m, or a loss of 29 cents a primary share after preferred dividends. Last year, net income was $88.1m, or a loss of 2 cents a share after preferred dividends.

Cray Research lifts sales but stays in loss

By Louise Kehoe

Cray Research, the leading supercomputer manufacturer, reported continuing losses for the third quarter, but new orders increased and revenues were up 21 per cent from the second quarter.

The company, which is struggling in the face of a decline in sales of high-end supercomputers to its traditional government customers, said it would in future focus on "target markets", end some activities and outsource others.

"This change in our activities will result in further job declines and additional restructuring charges will be taken in the fourth quarter," said Mr Phillip Samper, chairman and chief executive, who joined the company earlier this year.

Net losses for the quarter, after restructuring charges, were $13.5m, or 54 cents a share, on revenues of $169m. This compares with net earnings of $16m, or 62 cents, , on revenues of $219.9m in the same quarter a year ago.

"Our third-quarter operating results continued to show improvements over the previous quarters this year and the fourth quarter will be better on an operating basis," Mr Samper said.

The company will not achieve its goal of breaking even for the year, he said, but restructuring actions "are setting the stage for a profitable 1996, particularly in the second half of the year".

Orders booked in the quarter totalled $147m, up 16 per cent from the second quarter of 1995, and the backlog at the end of the quarter, at $355m, was at the highest level in seven quarters.

For the year to date, Cray reported a net loss of $200.7m, or $7.95 a share, after restructuring charges, on revenues of $440m. For the same period last year net earnings were $46.2m, or $1.78, on revenues of $685m.

AMERICAS NEWS DIGEST

UAL ahead sharply in third quarter

UAL, parent of United Airlines, reported its best-ever quarter for the three months to September 30 and said current bookings showed the strength continuing. The shares rose $6¾ to $176¾ in morning trading.

The group, which became majority-owned by its employees in July 1994, beat market expectations with third-quarter net income up from $82m to $243m, and earnings per share ahead from $4.21 to $12.87 fully diluted.

UAL and AMR, owner of American Airlines, are in talks with USAir over possible alliances or even a takeover.

Revenues in the quarter rose 8 per cent to $4.13bn, while costs rose 4.5 per cent to $3.66bn, roughly in line with a 4.4 per cent rise in capacity. Mr Gerald Greenwald, chairman and chief executive, applauded the "cost conscious attitude of our employee owners".

Mr Greenwald said the airline was gaining "a greater share of high-yield customers". Although the number of miles flown by passengers rose only 0.5 per cent to 31bn, reducing the load factor from 76.6 per cent to 73.7 per cent, revenue per passenger mile rose 8.1 per cent to $11.87.

Maggie Urry, New York

Dean Witter rises 19% in term

Strongly rising profits from Dean Witter, Discover's securities business made up for sluggish growth from its credit card activity to produce a 19 per cent rise in third-quarter net income from $185m to $219m. Earnings per share rose from $1.06 to $1.23 fully diluted.

For the first nine months, net income was a record $678m, up 13 per cent, with earnings per share up 11 per cent to $3.83 fully diluted.

Net income from the securities activity rose from $74.9m to $107m in the quarter and was up 23 per cent for the first nine months to $294m. Mr Philip Purcell, chairman and chief executive, said the business had taken advantage of strong financial markets and kept costs under control.

The credit card operation increased net income from $110m to $112m in the quarter, and from $363m to $385m in the first nine months. Revenues rose more rapidly, by 15 per cent in the quarter and 17 per cent for the nine months. Operating expenses rose faster than revenues, and loan loss provisions jumped 42 per cent. *Maggie Urry*

Crédit Lyonnais agrees sale

Crédit Lyonnais of France has reached agreement to sell its Chilean subsidiary to Dresdner Bank's Latin American subsidiary, Deutsche-Südamerikanischer Bank. The German bank will pay $48.8m for an 88.3 per cent stake and will become the first German bank to operate in Chile.

The price represents 1.2 times the Chilean bank's book value, and local analysts say this is in line with other recent bank purchases, such as the sale of the Chilean subsidiary of Banesto, the Spanish bank. Crédit Lyonnais Chile has only two branches, both in Santiago, and 180 employees. Its total loan portfolio at the end of September was $184m, which represents less than 1 per cent of market share. The sale is part of the French bank's policy of contraction in the region.

Imogen Mark, Santiago

Monsanto turns in 21% advance

Lower feedstock costs boosted gross profit margins at Monsanto, the US chemicals company, in the third quarter, fuelling a 21 per cent advance in net income to $140m on sales which were up 7 per cent at just over $2bn. Earnings per share rose from 99 cents a year before to $1.18.

Monsanto's figures also benefited from a $7m after-tax gain from legal settlements and a $20m addition to operating profits from revenue adjustments in its pharmaceuticals business.

Operating income from the company's agricultural products jumped 46 per cent to $41m, aided by stronger sales of the product Roundup, while income from chemicals rose 32 per cent to $90m. The food ingredients business reported operating income of $42m, a rise of 44 per cent, while the revenue adjustments and record sales in the Searle pharmaceuticals business led to a three-fold increase in earnings to $62m.

Richard Waters, New York

Price rises help Abitibi-Price

Higher paper prices spurred a 38 per cent gain in Abitibi-Price's third-quarter sales to C$763m (US$557.6m) from C$553m a year earlier. Net profit was C$84m or 91 cents a share, against a loss of C$5m or 4 cents.

The big North American newsprint producer's nine-month earnings were C$183m, or C$1.95 a share, against a loss of C$61m, or 74 cents, a share. Sales were C$2.04bn against C$1.54bn.

Abitibi said it expected to continue the record pace for the rest of the year. *Robert Gibbens, Montreal*

Higher output boosts Cominco

Cominco, the big Canadian mining and metals producer controlled by the Teck group, posted better third-quarter earnings with higher prices and shipments of zinc, lead and nickel. Net profit was C$22m (US$16m) or 25 cents a share, up from C$16.7m, or 20 cents, a year earlier, on sales of C$417m against C$292m. Nine-month profit was C$65.7m, or 78 cents a share, against C$64.3m, or 78 cents, which included a 55 cents a share special item. Sales were C$1.1bn against C$774m.

Refined zinc output was up because of improvements at Trail, British Columbia, and the acquisition of a Peruvian refinery. Installation of the Kivcet lead smelter at Trail is on schedule for a late-1996 start-up. *Robert Gibbens*

Rio Algom shows growth

Higher copper prices and strength in metals distribution helped Rio Algom to post third-quarter earnings of C$27.4m (US$20.02m), or 53 cents a share, up from C$21.2m, or 41 cents, a year earlier on revenues of C$583m against C$316m.

Nine-month profit was C$98.1m, or C$1.89 a share, up from C$45.2m, or 89 cents, on revenues of C$1.6bn against C$852m. Copper output was 145m lbs against 106m lbs.

Average LME prices were US$1.34 a pound against 98 cents a year earlier. Rio's average production cost in both periods was 63 cents a pound. The latest period includes a C$14m reserve for inventory adjustment, partially offset by a gain on the sale of 9.9 per cent of the Australian metals wholesaling unit.

Robert Gibbens

Firm prices boost US copper producers

By Laurie Morse in Chicago

Firm prices and big production increases contributed to strong third-quarter profits at the largest US copper-producing companies.

Copper prices during the quarter averaged $1.36 a pound, and while not all companies realised those prices because of hedging strategies, all performed significantly better than in the 1994 third quarter.

However, analysts say the outlook for copper companies is more uncertain than it has been in nearly two years, as the industry faces softer economic conditions around the world and a potential weaking in demand.

At the same time, significant new production capacity is due to come on-line over the next year, which could also dent prices. However, with stocks in registered warehouses declining, it is not clear that copper prices are poised for an immediate decline.

"There is more flux of opinion about the outlook for the industry, and about the direction of copper prices than there has been for an number of years," said Mr Thomas Van Leeuwen, metals analyst for CS First Boston in New York.

Estimates for the average price of copper next year range from $1.20 to $1.35 a pound.

During the third quarter Freeport-McMoRan Copper and Gold sold 258.2m lbs of copper and 338,700 oz of gold, and said recovery rates improved for both metals.

For the quarter, consolidated net income rose to $60m, or 30 cents a share, on sales of $470m, from $13m, or 7 cents, on sales of $313m in the third quarter of 1994.

Asarco produced 146,300 tons of copper in the third quarter and, with its combined interest in Southern Peru Copper, sold 169,500 tons.

Asarco reported third-quarter earnings of $58.3m, or $1.38 a share, on sales of $819.7m, up from a loss of $16m, or 39 cents, on sales of $513m in the same quarter last year.

Cyprus Amax Minerals reported net income of $135m, or $1.41 a share, on sales of $786m, before a special write-down of coal assets. This was up sharply from $35m, or 33 cents, on sales of $771m in the 1994 third quarter. During the quarter, Cyprus sold 178m lbs of copper, and molybdenum production increased to 17m lbs from 14m lbs last year.

Arizona-based Phelps Dodge produced a record 182,300 tons of copper worldwide in the quarter, with income rising to $211.8m, or $3.03 a share, on sales of $1.07bn. That compares with income of $94.2m, or $1.33, on sales of $813.7m in the 1994 third quarter.

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INTERNATIONAL COMPANIES AND FINANCE

Banks agree on liquidation of Japan mortgage lender

By Gerard Baker in Tokyo

Seven leading Japanese commercial banks, the co-founders of Housing Loan Service Co, a troubled mortgage lender, have reached agreement on the liquidation of the company, bank officials said yesterday.

The banks will write off 80 per cent of their outstanding loans to the mortgage lender, which has more than Y900bn ($9bn) in irrecoverable loans out of a total loan book of Y1,690bn.

Each of the seven banks – Dai-Ichi Kangyo, Fuji, Mitsubishi, Sumitomo, Sakura, Asahi and Tokai – will write off Y40bn of their Y50bn in loans. The remaining 20 per cent of their exposure – a total of Y70bn – will be used to capitalise a new company to take over the lender's Y700bn in recoverable loans.

Japan's seven housing loan companies pose the most intractable problem for the banking sector. They are all being liquidated by their parent financial institutions, which established them in the 1970s to provide residential loans. They expanded rapidly in the 1980s on a wave of real estate speculation. In the ensuing collapse most of their loans turned sour, and the companies are technically insolvent.

Between them, the lenders have an estimated Y8,400bn in non-performing loans – two-thirds of their total loans. A resolution of the problem is hampered by sharp disagreements between the two main groups of creditors: the banks on the one hand and the financial institutions associated with the country's agricultural co-operatives on the other.

The liquidation of Housing Loan Service typifies the problem. The banks plan to write off a combined Y350bn. However, they will ask the company's other creditors to shoulder the remaining loss of about Y550bn in proportion to the amount of loans extended. Under this formula, the agricultural financial institutions would have to write off about Y350bn in loans. But the farm co-operatives are certain to oppose the proposal. They claim the main banks, as founders and big shareholders of the housing loan companies, solicited business for them and should bear sole responsibility for the cost of their liquidation.

A special government committee is examining the arguments and is due to report by the year-end. It is widely expected to recommend the use of public funds to assist with the disposal of the housing loan companies' problem assets. But the issue is further complicated by the fact that the agricultural co-operatives do not wish to receive such funds. They believe they will result in a diminution of their managerial independence.

NEC to raise semiconductor spending to a record Y210bn

By Michiyo Nakamoto in Tokyo

NEC, Japan's leading semiconductor maker, will raise capital spending on semiconductors to a record Y210bn ($2.1bn) in the current year to March, the company said.

The increase represents a 68 per cent rise on the previous year. It comes as most leading semiconductor makers increase spending to meet expected strong demand in the years ahead.

Japanese semiconductor makers have been investing aggressively in new capacity. Toshiba, Fujitsu, Hitachi, Mitsubishi Electric and Matsushita have all announced increased spending plans, much of which will be in overseas markets.

Elsewhere, Intel of the US and Siemens of Germany have both announced substantial investments in semiconductor facilities recently.

Intel, the world's largest semiconductor manufacturer, announced last week that it planned to spend more than $3.1bn over the next two years to expand production in Ireland, Israel and Malaysia to keep pace with rising demand.

Siemens, the German electronics group, is to build a £1.13bn ($1.79bn) semiconductor manufacturing plant and research centre in north-east England as part of a broad expansion of its semiconductor activities.

Last year, NEC announced it was investing Y80bn in a new semiconductor facility in Scotland.

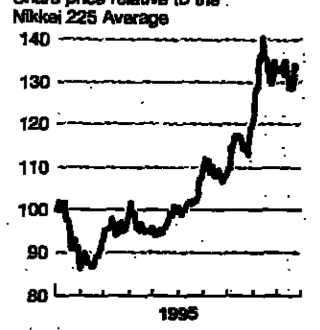
NEC's latest upward revision of its semiconductor spending plans follows an increase from Y150bn to Y180bn announced in July.

The bulk of the new investment will go towards increasing capacity at NEC's facilities in Japan, where it makes both memory and logic chips. At Kyushu, for example, the company will invest Y20bn to double the production capacity for logic chips, which perform the "thinking" functions of electronic equipment, such as calculations.

Amid strong demand for semiconductors from computer and other communications and information equipment makers, NEC expects its semiconductor sales to rise 26 per cent from the previous year, to Y1,170bn.

NEC

Share price relative to the Nikkei 225 Average



Source: FT Extel

Solid gains at JCI in quarter

By Kenneth Gooding, Mining Correspondent

JCI, the South African gold and base metal mining group unbundled from parent Anglo American Corporation last year, reported net profit from its three gold mines was R82.3m ($22.6m) for the quarter ending September 30, more than 50 per cent above the R54.6m posted for the June quarter.

Gold output advanced from 10,327kg to 11,454kg. Costs fell from R41,825 per kilogram produced to R38,853, and revenue per kilogram fell from R45,680 to R45,299. JCI said the mines had sold forward 12.6 tonnes of gold for the year to June 30 1996 at average prices between R47,523 and R48,024 a kilogram.

Anglo American Corporation's gold and uranium division reported a 53.6 per cent increase in available profit to R134.1m for the quarter to September 30, against R87.3m the previous quarter. Gold production increased by 7.7 per cent from 53,487kg to 57,613kg and average gold revenue per kilogram was virtually unchanged at R45,515, compared with R45,187.

Total gold working costs rose 5.2 per cent from R2,102.9m to R2,211.2m, while unit working costs were 2.4 per cent lower at R38,382 per kilogram produced. Capital expenditure in the quarter was 10.1 per cent lower at R218.3m, compared with R242.8m.

Randgold's new management marked its first year in office by reporting substantial performance improvements at the group mines and rapid progress in the strategic restructuring and repositioning of its interests.

Net profit improved from $1.3m to $6.3m, but Randgold said comparisons with 1994 were meaningless because 1995 included First Wesgold's results and reflected reduced management fees from the mines. Results from the Randgold mines showed after-tax profits at $10.7m, almost double the $5.5m for the June quarter.

ASIA-PACIFIC NEWS DIGEST

Singapore Airlines registers 12% rise

Singapore Airlines announced a 12 per cent rise in six-month group profit before tax to S$543.7m (US$384.8m) and said it was cautiously optimistic about second-half prospects. The airline's traffic grew 9 per cent. However, the yield, or passenger revenues divided by distance travelled, dropped 4.4 per cent. It said the fall was mainly attributable to the strength of the Singapore dollar, which appreciated by 4.1 per cent against a basket of leading currencies.

The airline's passenger seat factor, or aircraft occupancy, rose 0.9 percentage point to 72.8 per cent in the six months to September 30. Cargo load factor, however, fell 2.3 percentage points to 68.9 per cent, giving an overall load factor down 0.7 percentage point at 69.6 per cent.

Group revenues were up 3.8 per cent to S$3.37bn and group operating profit rose 10.5 per cent to S$527.8m. The interim dividend is 7.5 cents, the same as last year.

The group's net cash grew 36.3 per cent to S$1.14bn. The company said it expected passenger demand to increase in the second half, while cargo demand was expected to remain steady. It added, however, that excess capacity and stiffer competition, combined with the strength of the Singapore dollar, would continue to put pressure on passenger and cargo yields.

Michael Skapinker, Aerospace Correspondent

Hino Motors warns on profits

Hino Motors, Japan's leading truck maker, more than doubled profits for the first half of the year, but warned that growth had since evaporated. The group, an 11 per cent owned affiliate of Toyota, Japan's largest car producer, attributed its first-half success to strong demand for diesel trucks – almost half its sales – at home and abroad. Cost cutting also played a part.

Recurring profits – before tax and extraordinary items – rose 153.5 per cent to Y7.08bn ($71m) in the six months to September, on turnover up 1.4 per cent at Y306.57bn. However, the group warned it could not sustain the pace of profits growth in the second half. Domestic demand for trucks and parts has declined sharply, prompting Hino to reduce its own sales targets, according to analysts.

Hino yesterday forecast full-year recurring profits of Y12.2bn, slightly up on Y12bn in the year to last March, on sales down by 9 per cent from Y641.8bn to Y584bn. It will pay an unchanged interim dividend of Y3 a share.

William Dawkins, Tokyo

Softbank buys telecoms stake

Softbank, the Japanese distributor of computer software, yesterday announced its third acquisition of the past year. It has agreed to pay $30m for a 30 per cent stake in Unitech Telecom, a California-based telecommunications company, whose activities in China will provide Softbank with a stepping stone into the country's computer software market. As a result of the acquisition, Mr Masayoshi Son, the Japanese company's president, will become chairman of Unitech Telecom.

Separately, Softbank is in discussions to buy Ziff-Davis Publishing, the world's largest producer of computer magazines, for more than Y145bn ($1.45bn).

Mr Son, 39, is the best known of a young breed of technology service industry entrepreneurs to have floated their companies on Japan's over the counter market in recent years. Since joining the OTC in July last year, Softbank has paid $202m for Ziff-Davis's trade show division, and $800m early this year for the computer trade show division of Interface, a US exhibition group.

William Dawkins

Sharp increase for PosGold

PosGold, the gold mining arm of Mr Robert Champion de Crespigny's Normandy group, yesterday announced a first-quarter profit of A$22.1m (US$16.5m) after tax in the three months to end-September. This compared with A$8.86m in the same period a year ago.

It said a "dramatic improvement" in the performance of the Big Bell and Bounty gold mines in Western Australia lay behind the increase, with the former emerging as a possible 200,000 oz a year operation. In the latest quarter, the mine produced just under 50,000 oz. PosGold's total equity production in the three months rose to 273,189 oz from 251,414 oz in the previous quarter and 228,456 oz in the same period a year ago. The company said it was on course to exceed the total equity gold production of 956,800 oz seen in 1994-95 in the current financial year.

Nikki Tait, Sydney

Petroz eyes BHP assets

Petroz, the Brisbane-based oil and gas explorer, said yesterday it was one of the companies looking at a possible purchase of oil and gas production assets owned by BHP, Australia's largest resources group, in the Timor Sea. The group told shareholders at its annual meeting that it believed BHP was keen to sell interests in the Jabiru and Challis fields, and that it was potentially interested.

Nikki Tait

Disposal programme completed with £54.6m management buy-out

Dalgety sells Golden Wonder

By Neil Buckley

Golden Wonder bagged snacks – maker of Golden Wonder crisps and Wotsits – is being sold by Dalgety to its management, backed by Legal & General Ventures, the venture capital company, for £54.6m cash.

The sale completes the disposal programme Dalgety launched in February when it acquired Quaker European Pet Food for £442m. It leaves the formerly diversified food group more sharply focused on agribusiness, pet foods and food ingredients.

Although the selling price was lower than the market had originally hoped, Dalgety's shares gained 5p to 422p.

The sale follows Dalgety's disposal of the Golden Wonder instant hot snacks business, maker of Pot Noodle, to CPC International for £180m, and Homepride Cooking Sauces to Campbell Soup for £58.6m.

While Dalgety aimed to raise £300m from the sales, Mr Richard Clothier, chief executive, said yesterday the actual proceeds of £293.2m were in line with its expectations, given that it had decided to retain the cake mixes business. Most outside analysts valued that business at about £10m.

"I am particularly pleased that the management team is buying [Golden Wonder]," Mr Clothier said, calling this the "best outcome for employees, customers and suppliers."

The City gave the deal a cautious welcome. "Dalgety has done what it said it would do," said one analyst, "although the hope was that it would beat its original target with some comfort."

Analysts originally expected the company could raise £80m or more, anticipating a bidding war led by KP, the snacks division of United Biscuits.

After internal problems at UB precluded a bid from KP, that left other interested parties including PepsiCo, owner of the UK's biggest crisp brand, Walkers, as well as Snack Factory, an own-label maker owned by Longulf, a UK vehicle of Middle Eastern investors, and Unichips, an Italian company.

At one point, bids were rumoured to have fallen to about £40m. But it is understood PepsiCo and Snack Factory, which planned to divide the business between them to avoid problems from the competition authorities, were narrowly beaten by the management buy-out.

The new company's main shareholders are funds managed by Legal & General Ventures, with management led by Mr Clive Sharpe, a director of Golden Wonder, and previously chief executive of Homepride Foods.

Golden Wonder bagged snacks made pre-tax profits of £9.1m last year on turnover of £150.7m, with assets at the year end of £72.6m.

Govett case switches from US to Jersey

By Norma Cohen, Investments Correspondent

A legal battle between American Endeavor Fund, a venture capital investment trust, and Govett and Co, its former fund manager, will switch from the US to Jersey after a California Court agreed yesterday that it was not the best forum for the case.

The move is a blow for the fund, which wanted the case heard in California, where most of its witnesses live.

Jersey-based American Endeavor is seeking more than $67m in damages from the Govett group. It alleges that Govett – which operates in Jersey and California – its affiliates and its chairman, Mr Arthur Treuger, were engaged in fraud, breach of fiduciary duty and unjust enrichment which led to significant losses for fund investors.

Govett has responded with a defamation suit for more than $100m, claiming that the adverse publicity derailed its agreement in principle to acquire a US fund management business, Duff & Phelps.

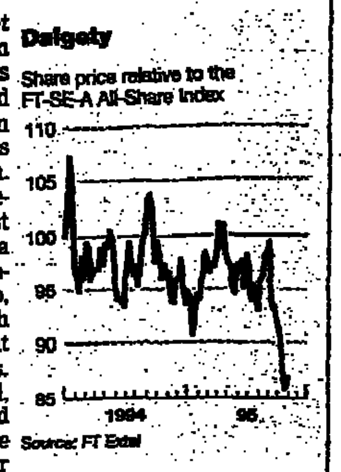
The Californian court, where both sides had filed suits, noted yesterday that the contracts at issue were signed in Jersey and added: "the California courts and juries are better suited for resolution of issues more closely related to California." It did not consider the merits of the allegations.

The clerk of the superior court said Govett had agreed to jurisdiction in Jersey. American Endeavour said yesterday that it has begun legal proceedings in Jersey which are "substantially the same" as those it had brought in San Francisco, seeking damages of over $67m.

Shortly after the Duff & Phelps deal was abandoned, Govett announced that it intended largely to withdraw from the fund management business. Its US and Jersey-based fund management business are for sale and it is understood to be in talks with four prospective buyers.

LEX COMMENT

Dalgety



The British snack market looks decidedly stale. When food group Dalgety put its Golden Wonder crisps and savouries up for disposal in February, the business was expected to fetch up to £100m. Yesterday's sale to its management for £55m equates to just one-third of turnover and a price/earnings multiple in single figures. Only a year ago, Dalgety sold its smaller Dutch snacks business for 80 per cent of sales and 22 times earnings. The real loser from the deal, however, looks to be United Biscuits. UB would dearly have liked to buy Golden Wonder but could not afford to, given its troubles elsewhere. Its KP snacks unit risks being squeezed between a strong market leader in PepsiCo's Walkers and a management buy-out team keen to revitalise Golden Wonder's fading brand.

Nonetheless, Dalgety has got off quite lightly. Golden Wonder's margins and market share are under pressure and even at this price the group has fulfilled its pledge to raise £300m through disposals. With the balance sheet restored to health, the management is free to concentrate on pet food, where the £465m acquisition of larger rival Quaker Oats has propelled it to the number two slot in Europe.

This year, the Quaker deal will dilute earnings by around 10 per cent. But if Dalgety can achieve the promised £40m of cost savings from integration, it will transform a group with annual profits of roughly £140m. Given a prospective yield of 7 per cent, the recent weakness in the shares looks overdone.

Scholl sees off dissidents

By David Blackwell

The Scholl board comfortably won a proxy battle yesterday with rebel shareholders who had tried to replace three non-executive directors.

But the rebels said the outcome was a hollow victory for the healthcare products group. "This business is clearly up for sale," said Mr Julian Treger of Active Value Advisors, which has been leading the rebels. "The onus is now on us to develop offers, and we will be doing that over the next couple of weeks."

Active Value Advisors and JO Hambro & Partners between them hold a 15 per cent stake in Scholl. They have been arguing for the last couple of months that Scholl would be worth far more to shareholders if it were to put itself up for sale.

Mrs Judy Stammers, Scholl finance director, said: "If the rebels produce a bona fide approach, we will respond."

The three non-executive directors proposed by the rebels, including Mr Treger, received 41.9 per cent of the vote. A separate resolution proposing the removal of the existing non-executive directors was rejected by 59.5 per cent of the vote.

The extraordinary meeting went ahead after talks on a compromise failed late on Monday. Over the weekend, the two sides had been looking at the possibility of appointing a mutually acceptable non-executive director.

Mr Gordon Stevens, Scholl chairman, said the board had always been ready to look at firm offers, adding that the two-month battle had cost the company about £500,000.

Zeneca sales 8% up at nine months

By Daniel Green

Volume growth helped sales from Zeneca Group, the pharmaceuticals company, rise 8 per cent to £3.68bn for the nine months to September 30.

Zeneca said its core business of pharmaceutical sales was up 6 per cent to £1.57bn and predicted the annual performance would show similar growth.

"Good volumes growth has been maintained, but pricing pressures remain in some European markets," said the company.

Sales in the agrochemicals division rose 13 per cent to £1.33bn, boosted by strong sales growth in North America, Europe and the Asia-Pacific region.

The growing season in Latin America had also got off to a good start, said Zeneca.

The company's third division, speciality chemicals, reported sales up 4 per cent to £786m after a strong performance from the effects division. Sales of the vegetable-based meat substitute Quorn doubled, with "high growth in the new Quorn burgers".

Difficult markets continued to hold back the textile colours operations.

The figure excludes the acquisition of 50 per cent of Salick Healthcare, the chain of US cancer hospitals, pending completion of Salick's annual results.

Wolseley gloomy despite 21% rise

By Patrick Harverson

The slump in the UK and US housing markets prompted Wolseley, the world's largest distributor of heating and plumbing equipment, to warn it would struggle to achieve profits growth this year.

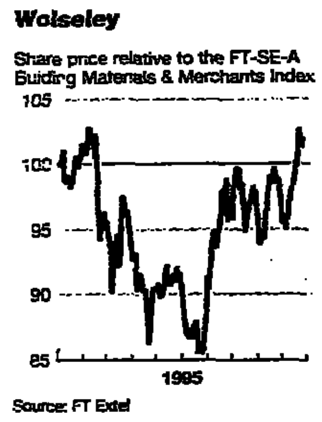
Although the group reported a 21 per cent increase in pre-tax profits from £202.3m to a record £245.4m for the year to July 31, Mr Jeremy Lancaster, chairman, issued a particularly downbeat assessment of trading conditions.

He said: "Existing markets are likely to remain difficult for the foreseeable future and may even deteriorate. In these circumstances, it is going to be very difficult to better this year's performance or perhaps even match it."

The warning from Mr Lancaster, who is renowned for his conservative approach to forecasting profits, illustrated how testing conditions in the UK building materials market have become.

Wolseley is also suffering because of weakness in key foreign markets. In the US – where half of the group's revenues are derived – growth in the housing market has stalled, while in France business and consumer confidence has fallen since Mr Jacques Chirac was elected president in May and short-term interest rates were raised.

It was more upbeat about the longer-term prospects. Mr Lancaster said profits growth would resume when the UK economy and the housing market recovered in the second half of 1996 and 1997.



Linread buy helps lift McKechnie

By Tim Burt

McKechnie, the plastics and metal components group, yesterday increased its full year dividend for the first time in six years following a sharp increase in profits.

Strong contributions from new subsidiaries – mainly Linread, the fasteners business acquired for £26m last year – helped lift pre-tax profits from £35.3m to £45.3m on increased sales of £532.6m (£420m) in the year to July 31.

That persuaded the group to raise the final dividend from 9.75p to 11p, making a total of 16.5p (14.75p).

Shares in the group, however, fell 13p to 441p after it sounded a note of caution on current trading.

"We have noticed a pause in demand in our start to the new financial year suggesting lower first half growth," said Mr Michael Ost, chief executive.

He blamed destocking by customers and hinted that growth was slowing in sectors such as automotive and home improvement.

Nevertheless, Mr Ost said the forward order book remained relatively strong and further capital investment was planned to improve productivity.

Such measures last year helped lift operating profits to £48.2m (£37m), while earnings rose from 27.1p to 33.8p.

Of the increased profits half came from acquisitions, with Linread contributing £5.6m in its first full year as part of McKechnie.

Mr Ost said the improvement had also been fuelled by sharply increased operating profits in the plastic products division, which jumped from £4.14m to £13.7m.

Specialist products – helped by price increases in New Zealand and Australia – contributed £19.6m (£12.9m), while the consumer products division showed a modest increase to £14.8m (£14.4m).

Strong cashflow and tough working capital controls, meanwhile, helped eliminate balance sheet gearing – thereby enabling McKechnieto contemplate further bolt-on acquisitions, particularly in the US and continentalEurope.

Spanish drug deal for Medeva

Medeva, the pharmaceuticals company, has paid £12.4m for the exclusive Spanish marketing rights to seven prescription drugs from Glaxo Wellcome's portfolio, writes Motoko Rich.

The drugs, which include a dermatological steroid and antibiotics, generated £6m in sales in the year to June 30.

Glaxo Wellcome will continue to supply the medicines. Forty three sales and marketing employees will transfer from its Britisfarma division to Evans Biológicos, Medeva's Spanish subsidiary, increasing its staff to 64.

Glaxo Wellcome said its Spanish business was rationalising its portfolio after the Wellcome takeover. The seven drugs represented less than 5 per cent of total turnover from its Spanish range last year.

Dr Bill Bogie, Medeva's chief executive, said it hoped to obtain organic growth from the drugs.

The acquisition was important not only because of the products but because of the staff. "Glaxo Wellcome's sales force is very well trained and of high quality," he said. "To try and get them starting from scratch would be very difficult."

Dr Bogie said the drugs would be sold exclusively in Spain, and not be imported to the rest of Europe once a ban on Spanish exports was lifted at the end of this year.

HSBC US arm

HSBC Americas, the US retail banking subsidiary of HSBC Holdings, formerly known as Marine Midland Banks, reported a 33 per cent increase in post-tax income from $57.7m to $76.6m (£49.4m) for the third quarter to September 30 1995.

Net interest income advanced from $188.9m to $220.6m.

The results this time include Concord Leasing, the equipment leasing unit merged into Marine Midland last January.

For the nine months net income was $210.9m ($167.4m).

Putting a foot in the loan door

Prudential targets deposit and mortgage markets, says Alison Smith

As Mr Peter Davis, chief executive of Prudential Corporation, flies to China today to visit the Pru's fledgling operations, he could be forgiven for thinking that he lives in interesting times.

Yesterday's announcement that Prudential, the UK's largest life insurer, plans to enter the retail deposit and residential mortgage markets by the end of next year surprised even a sector which is becoming used to shock waves.

Though still some way off, the decision by a company as large as the Pru to cross the boundary from life assurance into personal savings and home loans marks a new and highly significant phase in the re-shaping of the UK's personal financial services sector.

"Banks, societies and life companies are converging and we want to be players in that," Mr Davis says.

What has taken competitors aback is not Prudential's desire to be able to offer deposit accounts as well as longer-term savings – a move foreshadowed by Scottish Widows, a mutual insurer which launched deposit accounts in the spring – but its decision to enter the already crowded and competitive mortgage market.

Mr Davis sees the move as a way of carrying the battle for personal customers to the high street banks and building societies, which have been broadening their services to include life assurance and investments.

"We pay out more than £1bn a year in mature policies, and many of our customers put them in bank and building society deposits," Mr Davis says. "This is an opportunity to recycle some of that money, and mortgages are a way for us to use those deposits properly."

But whereas banks and societies sell primarily through their branch networks, the Pru aims to sell over the telephone and through its 6,500-strong direct sales force. The company believes this low cost base should give it a competitive edge.

The move was yesterday broadly welcomed as a sensible defensive measure, which also offers the opportunity for the Pru to expand into new markets.

In theory, the company should be able to use the initiative to sell the new savings policies and home loans to its existing 6m-plus customer base, and to reach new types of customer over the telephone.

The development should also reinforce the Pru's focus on its UK business, which is expected to grow as the process of rationalisation in the life sector removes competitors. This would represent a shift from the international emphasis which Mr Davis adopted when he became chief executive in the spring.

In addition, the move appears to widen the range of potential acquisitions that might make sense for the Pru. Last month it said it was interested in taking over smaller life companies. Yesterday's announcement, however, may increase the likelihood of it buying a building society.

In other respects, the advantages of the move are less clear-cut. On costs, the Pru should have an initial advantage over mainstream lenders in the rates it can offer customers, because it will not be supporting a national branch network. But that advantage is shared by other financial organisations which have recently entered the mortgage market such as Direct Line, the telephone-based insurer.

In addition, building a telephone banking operation from scratch is no easy matter. Mr Mike Harris, former chief executive of First Direct, the telephone banking subsidiary of Midland Bank, who will run the Pru's operation, is clear that the quality of service is particularly important in dealing with customers on the telephone.

Observers believe that other life assurers are more likely to follow the Pru into savings than home loans, because the mortgage market is at present so competitive.

Though interest-rate margins have held up better than some analysts predicted, they are still under pressure. Many lenders are offering loss-leading deals to win new customers. And home owners are becoming aware that they may be able to get a better deal by switching their mortgages even if they are not moving.

Nor is home loans an area in which mainstream lenders expect to see much increase in business over the next few years.

"This is a good deal," says Mr Andrew Pitt, an analyst at BZW, "but I wouldn't over-estimate the profits the Pru will make from it".

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Boxmore §	6 mths to June 30	33.7	(23.1)	5.48	(3.75)	13.2†	(10.9)	1.62†	Dec 5	1.375	-	4.48
Channel	6 mths to Sept 30	-	-	-	-	-	-	0.55	Jan 31	0.55	-	1.3
Freeport Leisure	Yr to July 2	1.86	(-)	0.103	(-)	0.7	(-)	-	-	-	-	-
London Securities	6 mth to Dec 31	-	-	-	-	-	-	3.5	Nov 14	nil	-	nil
Magnolia	6 mths to June 30	10 6	(8.41)	1.34L	(0.309L)	30.38L	(5.39L)	nil	-	nil	-	0.1
McKechnie	Yr to July 31	532.6	(420)	45.3	(35.3♥)	33.8	(27.1)	11	Jan 19	9.75	16.5	14.75
Ocean Wilsons	6 mths to June 30	38.72	(17 41)	4	(1.53)	6.14	(2.45)	1	Nov 16	1	-	4.25
Reflex ‡	6 mths to June 30	2.33	(3.27)	0.015♠	(1.22L)	0.05	(6.1L)	nil	-	nil	-	nil
Scot Metropolitan	Yr to Aug 15	18.6♦	(16.3♦)	.8.52	(11.3)	5.91	(8.82)	1.5	Jan 5	1.5	2.5	2
Silk Industries	6 mths to Aug 31	6.44	(6.27)	0.973	(0.872)	5.6	(4.8)	2	Dec 1	-	-	-
Wolseley	Yr to July 31	3,784	(3,254)	245.4	(202.3)	29.72	(25.39)	8.85	Jan 31	6	9.8	8.36
Yorklyde	6 mths to July 31	11.33	(9.22)	2.05	(1.7)	13.2	(11.4)	2.65	Dec 1	2.4	-	7.25

Investment Trusts		NAV (p)		Attributable Earnings (				Current	Date of	Corresponding	Total for	Total last
Abtrust High Income	Yr to Sep 30	81.52	(89.25)	2	(1)	6.5	(3.28)	1.6*	Nov 28	-	6.2	2.8
Contra-Cyclical	6 mths to Sep 30	38.1	(49.7)	0.555	(0.353)	6.94	(4.41)	2.25**	Nov 30	2.25	-	9.5
Edinburgh	6 mths to Sep 30	357.7	(326.6)	17.7	(15.7)	6.01	(5.35)	3.25	Dec 1	3.05	-	9.35
Fleming Claverh'se	Yr to Dec 31	-	-	-	-	-	-	1.45***	Dec 1	1.25	-	-
Lon & St Lawrence	Yr to Aug 31	187 74	(180.4)	1.95	(2.62)	5.96	(8.86)	3.12	Nov 30	3.12	6.24	6.24
Venturi	6 mths to Sept 30	25.18	(21.2)	0.128	(0.097)	2.13	(1.62)	1.78	Dec 1	1.66	-	4

Dividends shown net. Earnings shown basic. Figures in brackets are for corresponding period. §USM stock. †On increased capital. ♥After exceptional credit. ♦Net revenue. ‡Irish currency. *Fourth interim. **Second interim. ***Third interim.

JORDAN

A new stake in stability

While the country is enjoying renewed regional influence, peace is expected to bring economic growth, says David Gardner

Jordan, and its resilient monarch King Hussein, have in the past year re-emerged as important players in the Middle East for those, in and outside the region, with a stake in the area's stability.

The country has greatly strengthened its macroeconomy, after near collapse six years ago, and is gradually introducing structural reforms to win the investment it hopes the region will attract as peace takes shape.

Politically the most liberal country in the Arab world, King Hussein, moreover, is now offering Jordan's restoration of a guided democracy as a model that his more powerful Arab neighbours might fruitfully follow.

As King Hussein opens the Middle East and North Africa economic summit this Sunday in Amman – where about 1,700 businessmen and government officials will seek ways to open the regional economy to cross-border business and integration – he can reflect with some satisfaction on how far he and his country have travelled in the past five years.

In the Gulf crisis of 1990-91, the Jordanian king was reviled in western and Arab capitals for refusing to take up arms against Saddam Hussein for Iraq's seizure of Kuwait, instead insisting on regional mediation.

Ranged against him were Egypt, Syria and Saudi Arabia, which all joined the US-led alliance which evicted Iraq and isolated it through ferocious UN sanctions. It looked for a while as though Jordan might share in this isolation, as well as losing Iraq as its most important market.

But the British-educated king, a traditional ally of the west if often mistrusted by his regional peers, bounced back fast.

Jordan took under its umbrella a Palestinian delegation to the Middle East peace talks started in Madrid in November 1991, at a time when neither Israel nor the US – co-sponsor with Russia of the negotiations – would treat with the Palestine Liberation Organisation.

He moved equally fast after the PLO reached a bilateral peace accord with Israel, secretly negotiated in Oslo, in November 1993. Within a year, Jordan signed its own peace with Israel, ignoring protests from Syria that it was breaking Arab ranks.

Determined to keep his country at the centre of fast-moving developments in the region, the king this summer realigned Jordan firmly against the Saddam regime, bidding for a role as a regional powerbroker.

This month, in an interview with the FT, King Hussein went further and condemned the Iraqi referendum – which endorsed Saddam as president by 99.96 per cent – as a "dangerous farce" which could accelerate the break-up of the country, triggering "a bloodbath" and regional crisis worse even than the Gulf crisis.

He called instead for new constitutional arrangements to be agreed by a "national reconciliation" assembly of "credible representatives of the three major components of Iraq's people" – Kurds, Shi'a Moslems and Sunni Moslems – and suggested that "a federated Iraq might be the answer".

Such ideas are meeting resistance from neighbours such as Egypt and Syria, not least because of the evidence they furnish of the king's less than welcome inclination to provide a regional lead.

The Hashemite king, descended from the Prophet Mohammed and the family that launched the Arab Revolt against the Ottoman empire, spent the first half of his 43-years reign under siege from Arab nationalist rivals in the region such as the late President Nasser of Egypt or the Ba'ath parties in Syria and Iraq.

More confident of his legitimacy than they, he has had less resort to the obfuscations of pan-Arabist rhetoric, and now speaks more plainly than ever.

His popularity among Jordanians appears genuine, although it is solidly buttressed by an army drawn from the Bedouin tribes in a country where the majority is of Palestinian origin. He was probably more in tune with national and Arab opinion while formally opposed to Israel and seemingly allied to Iraq.

His deft repositioning of Jordan has built up credit in the west but hostility at home. He has to calculate finely how far he can move ahead of his people.

Yet the diminutive king's political dominance has dwarfed Jordan's institutions, more developed than the regional norm, but fragile.

"There are no institutions," and "the spread of tribalism terribly dilutes democracy", complains one leading MP. "I am really thinking about after King Hussein – what will happen then?" he adds.

The November 1989 elections, the first to parliament since 1957 when the king and his army moved to crush Nasserist agitation and a subsequent series of attempts to overthrow him, returned Islamic fundamentalists as the largest, and only ideologically cohesive bloc.

For the last elections in 1993, voting rules were changed to halt the Islamist advance but at the cost of packing parliament with tribal representatives, who are failing to articulate a national vision, much less bind together ethnic Jordanians and Palestinians.

The king took a brave risk by co-opting the Islamic revivalists into the democratic process. Neighbours, such as Egypt for instance, rely almost exclusively on repression against fundamentalism – and are struggling.

He also insists he has "been the strongest advocate of democratic institutions in this country . . . where the dependence on any individual becomes less, and democracy becomes the unifying force". He offers Jordan's experience "as an example that works", which should serve as a model for the region.

Yet one of the king's senior advisers acknowledges that "there has been some trespassing" on the prerogatives of the government, the legislature and the judiciary, adding in justification that "you have to educate, to guide . . . in order to make the idea of democratisation viable".

Lurking underneath this mix of caution and confidence, of democratic ambition anchored to a tribal bedrock, is fear of the Palestinian question, in its internal as well as external manifestations. After September's PLO-Israeli agreement to expand Palestinian self-rule in the West Bank, Israel has suggested an Israeli-Palestinian-Jordanian "confederation", exciting PLO suspicion it wants Jordan to help stunt the growth of an independent Palestine.

The king is wary of treading into this minefield of mistrust – and probably of any dilution of his own authority – in view of the preponderance of Palestinians within Jordan whose eventual allegiance is in doubt. There is further concern, his advisers say, that the complex and imbalanced self-rule exercise will not work, and that Palestinian frustration could spill over from the West Bank into Jordan, raising the spectre of the 1970-71 civil war against the PLO.

Evidence of this concern is the way the peace process has rolled back democratic expression in Jordan, with the government, for example, banning an opposition conference in May against "normalisation" with Israel. The government is desperately seeking tangible dividends from peace, fearing it has raised people's hopes too high.

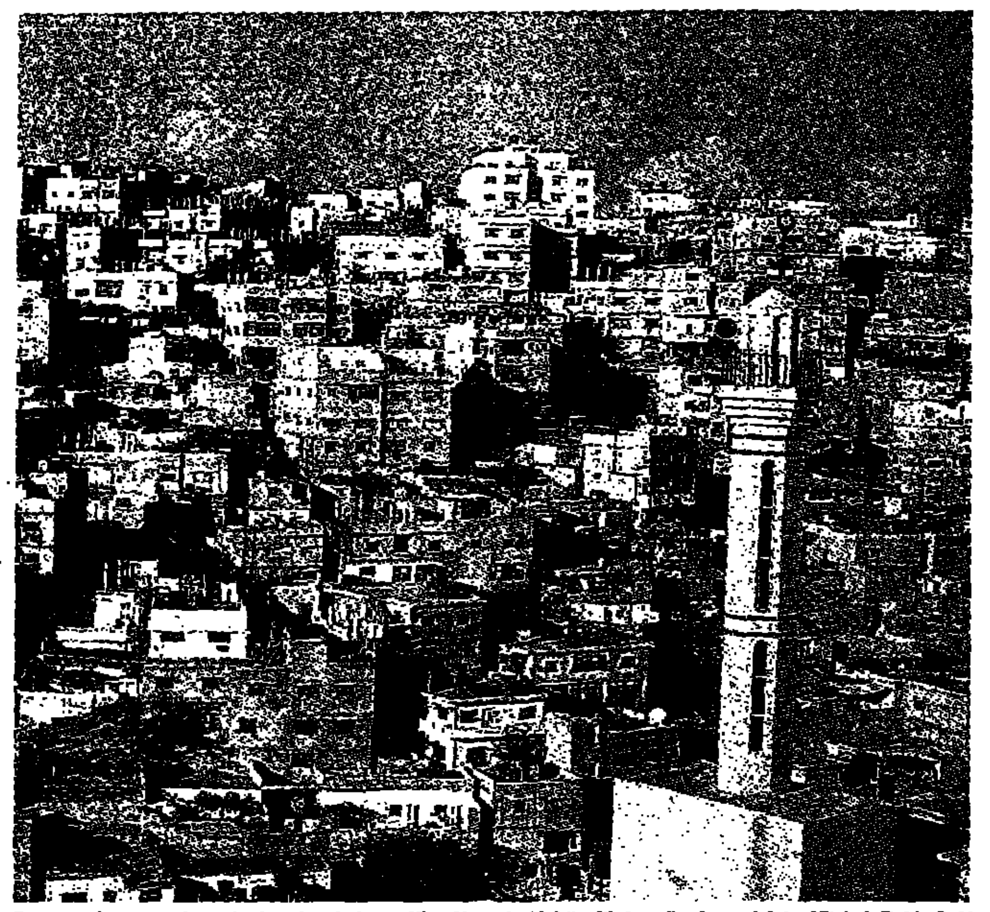
That search has been a spur to economic reform. A successful, IMF-backed macroeconomic stabilisation has so far provided strong, non-inflationary growth of near 6 per cent of gross domestic product.

But while that part of the programme was essential to lift Jordan out of the deep economic crisis of 1989-90, when the dinar collapsed and the kingdom defaulted on its foreign debt, it is the prospect of peace and hope of regional integration which is fuelling vital structural reforms.

The reforms, hastened and packaged for presentation at the Amman summit, are incomplete. Businessmen and bankers say the bureaucracy is still unconvinced about foreign investment, and technocrats across the administration call for more extensive privatisation.

The education system, which still receives only half the revenue devoted to the army, is distorted by the need to cope with numbers at the bottom and the preference for academic education at the top. "The missing middle" of vocational training, as one government adviser calls it, "is one of the biggest challenges Jordan will face in the future".

But it is on the future that the king has his eye, and for which he will be bidding at the Amman summit, anchored though he is in the treacherous cross-currents of the region. "I'm not working for today," he says. "I'm working for tomorrow."



Re-emerging as an important regional player: King Hussein (right) with Israeli prime minister Yitzhak Rabin (left) at June's summit meeting. Amman (above): the capital city is the location for an economic summit this Sunday at which about 1,700 businessmen and government officials will seek ways to open the regional economy to cross-border business and integration

Pictures: Reuter/Robert Harding

IN THIS SURVEY

Editorial production: Sarah Murray

■ **Banking:** by Julian Ozanne

Pushing for mergers

A mixture of carrot and stick is to be used to encourage consolidation in the sector

After a banking crisis in 1989 and the subsequent liquidation of Petra Bank, Mohammed Nabulsi, governor of the Central Bank of Jordan, is determined to take stringent measures to strengthen the sector.

As the government continues to deepen economic reform and prepares for greater flows of investment the CBJ has decided it is time to nudge the banking sector towards consolidation with a mixture of stick and carrot.

The CBJ believes Jordan – with about 20 local and foreign commercial and investment banks with 400 branches – is over-banked. It wants to encourage mergers among predominantly family-owned banks by a mixture of incentives, penalties and compulsion.

The CBJ has instructed local commercial banks to increase their minimum capital requirement from JD5m to JD20m by the end of 1996. Only two banks meet the requirements – Arab Bank, which dominates the sector with a 24 per cent market share and Jordan Gulf Bank which recapitalised at JD20m last year after a merger with the Jordanian branches of Al-Mashreq bank.

Banks that merge will receive preferential CBJ treatment, including lower interest rates on CBJ loans and higher yields on deposits which the commercial banks are forced to place at the CBJ. "The strategy is to continue working for a more efficient, competitive and capital qualified banks," said Mr Nabulsi.

Branches of foreign banks have been requested, but not forced, to increase their capital to JD10m. The CBJ has also introduced other measures to limit the extension of credit to single borrowers. Under the regulations, banks cannot lend more than 7 per cent of their capital and reserves to a single entity, although the CBJ can approve lending up to 25 per cent. Any bank exceeding the limits will be subject to fines.

These regulations are intended to underpin the CBJ's strategy of encouraging mergers but foreign banks are unhappy. "These regulations obviously restrict the ability to do business with the capital one has," said one foreign banker. "So foreign banks have to accept either their ability to grow is limited or they must increase their capital to further grow their business."

In addition, Mr Nabulsi is finalising a banking law which will include more effective banking supervision and tighter legislation which allows the CBJ to levy penalties.

Some bankers argue the new regulations, together with other risk concentration measures, have come too close together and could force banks to go to the capital market in a disorganised crush, draining liquidity from the Amman Financial Market. But Mr Nabulsi says: "The large exposures of some banks to private sector clients is not in conformity with prudent banking policy. When we saw the problem we decided we had to fix it immediately."

The CBJ dismisses fears of a rush by banks to the capital market and believes many banks that refuse to merge will be able to meet the requirements by a capitalisation of reserves. It also rejects fears that JD300m could be drained from the market and says the maximum amount involved is JD150m. The CBJ points to the example of Housing Bank, Jordan's second largest, which plans to raise its capital from JD12m to JD25 by December by a JD6m capitalisation of reserves and a new share issue. In any case the CBJ promises to be flexible.

While some bankers complain about CBJ policies, there is recognition of the need for further concentration in the sector which remains profitable.

Profits, nevertheless, have been squeezed with rising interest rates. Lending rates are 11-12 per cent and deposit rates about 9 per cent reflecting fierce competition for new liquidity. The Central Bank has continued to keep tight monetary policy limiting credit expansion to about 10 per cent this year in line with the expansion of deposits. Indirect measures, primarily Certificates of Deposit, have replaced direct credit ceilings. Mr Nabulsi says the lack of liquidity in the banking sector, with overnight interbank rates currently at about 9 per cent, is proof of policy success.

The credit squeeze has little to do with inflation and a lot to do with maintaining the strength of the Jordanian dinar and the attractiveness of JD denominated deposits over US dollar denominated alternatives. "We shall remain committed to the interest rate policy which will favour the value of the Jordanian dinar and make it worthwhile for the Jordanian holder of foreign exchange to convert into dinars," said Mr Nabulsi.

Mr Nabulsi says high interest rates have not deterred investment and maintenance of a strong and stable Jordanian dinar since 1991 has prevented capital flight and led to a repatriation of some of the estimated $5-6bn Jordanian capital held abroad. It has also allowed the CBJ to take further steps towards liberalising the foreign exchange regime. Forty per cent of bank deposits in Jordan are in foreign currency. New measures allow banks to use up to 50 per cent of their foreign currency deposits either through loans for productive projects in tourism, industry or export-oriented concerns or by investing in foreign capital markets in the US, Germany, Japan, the UK and Switzerland in certain government and corporate paper.

In addition, a new foreign exchange control law will formalise the elimination of restrictions on transfers. Restrictions remain for the time being on capital transfers.

Taken together, the reforms under way in the banking sector mark the growing confidence of the CBJ in the success and stability of its monetary policy and the need to strengthen the banking sector as Jordan expects to capitalise on new trade and investment in a post-peace era.

■ **Economy:** by David Gardner

Hopes are pinned on peace

Structural reforms are being put in place that are intended to draw in investment

Past the halfway mark of a successful macroeconomic stabilisation programme backed by the International Monetary Fund and World Bank, Jordan is betting that the Middle East peace process will bring stability to the region. It is putting in place structural reforms intended to ensure the kingdom gets a good share of the investment it expects peace to attract.

It has been hard for Jordan's economy to climb out of the pit it fell into at the end of the 1980s. It had benefited as a largely rent economy from the sudden Arab oil wealth of the 1970s, and kept afloat by feeding the undemanding Iraqi economy through most of the 1980-88 Iraq-Iran war. World Bank figures show average annual growth in gross domestic product of 11.1 per cent in 1973-79, of 9.9 per cent in 1980-85, but negative yearly growth of 1.2 per cent in 1985-89, as the oil price collapse depressed regional economies, and in particular the flow of aid and remittances from Jordanians working in the Gulf dried up.

In 1989-90 the dinar collapsed, Jordan experienced a banking crisis and defaulted on its foreign debt, at over $8bn, then more than twice its GDP. "The only growth we had in the 1990s was the growth of our external debt," says Mohammed Said Nabulsi, governor of the Central Bank.

Enter the IMF – twice in fact – since Jordan's misery was prolonged by the Gulf crisis, which shut off its biggest trading partner, Iraq, and isolated the kingdom because it refused to back the western-Arab alliance to reverse militarily the Iraqi invasion of Kuwait.

The stabilisation programme was relaunched for 1992-97, with a three-year extended IMF facility and sectoral funding from the World Bank. It has met most of its targets, and so far delivered sustainable, non-inflationary growth.

In 1992, fuelled by the one-off stimulus of savings invested by about 300,000 "returnees" – Jordanians and Palestinians expelled from the Gulf after Kuwait's liberation – the economy grew 11.3 per cent.

Jordan has used the large rent component of its economy productively. Public and private investment between 1974 and 1983 closely tracked and sometimes exceeded flows of aid and remittances then equivalent to between half and two-thirds of national output.

The economy thus developed a small but solid manufacturing base, with largish state-dominated companies in phosphates, potash, cement and refined oil products, and smaller private companies producing pharmaceuticals, chemicals, textiles and footwear and processed foods. It also now has a more consolidated banking sector as well as considerable tourism potential.

From 1993, growth has steadied at close to 6 per cent, the target for this year. But high real interest rates of 4 to 5 per cent have held the dinar and – along with cheaper import prices as a result of a halving of the weighted average tariff from 34 to 17 per cent in the past two years – have helped reduce inflation from 16 per cent in 1990 to about 4 per cent now. The budget deficit has been similarly cut from 18 per cent in 1991. According to Basil Jardaneh, the finance minister, it now stands at 4.5 per cent of GDP, or less than 1 per cent if grants are included.

Overall investment levels as a proportion of GDP remain high, averaging more than 30 per cent in Jordan in 1992 and 1993; against, say, 22 per cent in Turkey, 19 per cent in Egypt, 27 per cent in Indonesia, or 20 per cent in Brazil. This is helped by a Central Bank regime granting industrial investors up to a one and a half percentage points reduction on interest rates.

Exported goods this year have increased at a rate of 25 per cent, with tourism receipts up by about 40 per cent, but imports rising at only 11 per cent, the finance ministry says. But Jordan's import bill remains high in relation to its export base. The current account deficit has fallen from 18 per cent in 1991 to about 7 per cent last year, but it will be difficult to reduce it further. "I'm not sure that our work in reducing the current account deficit will be as successful as it has been," says Mr Nabulsi at the Central Bank.

That and, above all, the continuing foreign debt overhang, are among the darkest shadows over the economy's future, even though the IMF is helping Jordan build up reserves. Debt write-offs in the wake of the 1994 peace treaty with Israel, primarily by the US and the UK, have helped reduce disbursed foreign debt from $8.4bn in 1991 to $5.9bn, according to Mr Jardaneh. That pulls it about equal with GDP, but still at a level which impairs Jordan's creditworthiness.

"There hasn't been enough appreciation and support for debt relief in Europe," insists the finance minister. "To improve the business climate in Jordan we have to deal with the debt overhang."

There are other uncertainties and problems. Unemployment has fallen from 25 per cent in 1990 to about 14 per cent, but is still unacceptably high, with perhaps a quarter of Jordanians below the poverty line, and the population growing at 3.4 per cent a year.

Vocational training is weak. Resistance to doing business with Israel is high, and the extent to which infrastructure linking the two economies and the Palestinian territories will materialise is unclear. No one knows when the UN sanctions-hit Iraqi economy will re-open. And, at this transitional phase, policy-makers and businessmen seem unsure whether Jordan's limited range of goods should be aimed at the global or Arab market.

But after a slow start, Jordan has forged ahead with measures within its own reach, especially structural reforms, including:

- a new investment law largely equalising foreign and domestic investors;
- currency convertibility;
- tariff cuts;
- and, crucially, tax reform.

Jordan has raised government revenue 10 per cent, through a new sales tax (with exemptions for basic commodities), and by switching from tax holidays for investments selected by the bureaucracy to sharp corporate tax cuts available to all. Tax holidays are still offered to develop the south and in free zones, but, as a senior technocrat puts it, the new philosophy is that "it's not for governments to decide whether investments are viable".

FOCUS New tax and investment laws

The environment shifts

Jordan recently passed sweeping new tax and investment laws aimed at attracting foreign investment by lifting restrictions on foreign ownership and cutting bureaucracy. The laws mark a shift in the macro-economic environment which has traditionally been hostile to foreign investment and ownership.

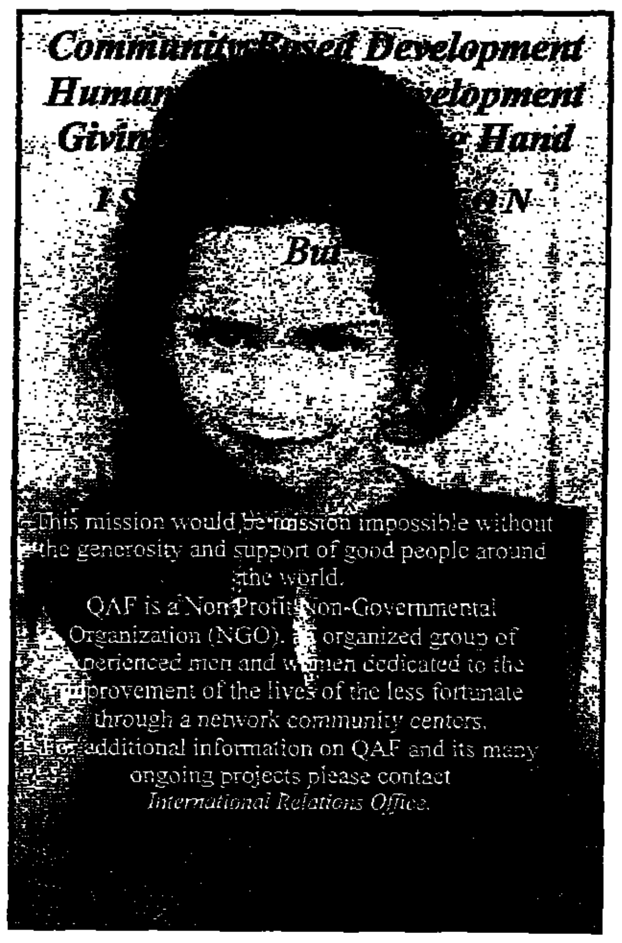
Asem al-Hindawi, director general of the Investment Promotion Department, says the package ensures foreign investors and Jordanians receive equal treatment.

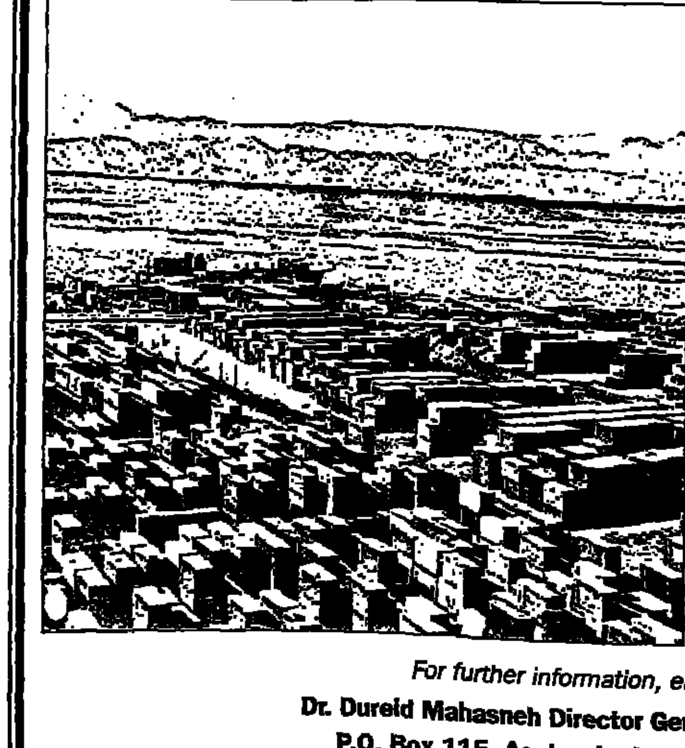
However, hostility to foreign ownership lingers in buraucractic and political circles from old-school Arab nationalists and from Islamists, the main parliamentary opposition. Furthermore, foreign investment is likely to be impeded by the continuing stranglehold of the inefficient and corrupt bureaucracy.

Nevertheless the new measures mark a serious step towards a more open economy. Reforms include:

- The creation of an independent Investment Promotion Corporation with a "one-stop" investment window to license investment and obtain permits from other government authorities. The minister of trade and industry is empowered to license the project if government bodies have not responded to applications within 30 days.
- International arbitration of disputes.
- Free repatriation of foreign capital, profits or money gained from the sale or liquidation of a project or stock without delay in convertible currency. Foreign investors also have the right to manage projects with their own personnel.
- Abolition of government committee approval of foreign investment directly in projects or on the stock market.
- Reduction of the corporate income tax from 40 to 25 per cent with the exception of banks, financial, insurance and brokerage firms which will now pay 35 per cent instead of 40 per cent. Tax on companies in priority sectors such as mining, industry, hotels and hospitals will be levied at a special low rate of 15 per cent.
- Exemptions from customs duties on imported capital equipment and spare parts. Exemptions from income taxes ranging from 25-75 per cent for investments in lesser developed regions of Jordan outside of the industrial zones in Amman and Zirqa. Extra exemptions for hotel and hospital projects.

Julian Ozanne





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■ **Minerals:** by David Gardner

Deals and diversification

Inward investment and joint ventures are helping the kingdom exploit its natural resources

Jordan, blessed with few natural assets in an oil-rich region, has devised a clever strategy for making the most of the few resources it does have – phosphates and potash. The kingdom now has a policy for getting more added value from its minerals, and for drawing in the investment needed to do this, while, at the same time, securing markets for raw, intermediate and finished products well into the next century.

Some evidence of this will be on show at this weekend's Middle East and North Africa economic summit in Amman, bringing together about 1,700 business and government leaders from within and outside the region.

The Jordanian minerals sector expects then to announce or present up to five joint ventures in intermediate and finished fertilisers worth about $830m.

The sector already accounts for about a third of Jordan's $1.2bn annual exports, and, as these projects come on stream, should help sustain an export growth rate running this year at close to 25 per cent.

The two forces in the sector are the Jordan Phosphate Mines Company (JPMC) and the Arab Potash Company (APC) – listed, pan-Arab companies majority-owned by the Jordanian state. Both are big domestically and sizeable internationally. In phosphates, Jordan is the world's second largest exporter (after Morocco) and fifth producer; in potash, it is fifth as an exporter (Canada is the largest) and sixth as a world producer.

Faced with the structural decline in demand for raw phosphates that became clearly visible at the end of the 1980s, in tandem with cyclical and one-off pressures that depressed the fertiliser market, JPMC accelerated its march downstream while APC too sought to diversify.

The cyclical pressures included variable farm prices in key markets and fluctuations in the availability of foreign exchange to importers. The collapse of the Soviet Union and economic reform in big Far Eastern markets such as India and China also hit Jordan hard. Russia started dumping its own phosphates output to generate hard currency, and cut off import subsidies to its sister republics and former eastern European clients, while, in the far East, fertiliser subsidies were reduced dramatically.

JPMC currently has installed capacity to produce 7m tonnes of rock phosphate, expected to rise to 10m tonnes by 2000. Actual production, however, settled at about 4.2m tonnes – about 85 per cent for export – in 1993-94, down from a high of 6.9m tonnes in 1989.

The giant Eshidiya deposit in the south – which has more than doubled Jordan's mineable phosphate reserves to 2bn tonnes – will, by the end of the century, replace output from the Al-Hassa and Al-Abiad mines.

The company in 1982 established its own fertiliser complex in Jordan's Red Sea port of Aqaba, 120km south of Eshidiya, with capacity to produce annually 430,000 tonnes of phosphoric acid, 800,000 tonnes of diammonium phosphate (DAP), and 20,000 tonnes of aluminium fluoride. Eshidiya has high-quality ore, but the strategy is to ensure that 40 per cent of its output will be for downstream products by 2005, according to Sameh Madani, JPMC managing director. "We have to diversify," he says, because "rock exports alone would make us vulnerable."

The recipe, therefore, is joint ventures, technology transfer, inward investment and secured markets, because "we can't do it alone", Mr Madani says. Suleiman Hawari, managing director of APC, concurs: "We want to make the markets for our products permanent and we want to get hold of the technology and know-how."

Potash is theoretically less vulnerable because, as Nasser al-Sadoun, his deputy and APC plants manager, points out, "unlike phosphates it's a final product, which is bulk-blended, rather than chemically blended". But APC too is after higher added value, diversity, and long-term purchase agreements. Both companies have already made considerable headway through joint ventures that include:

- Nippon-Jordan Fertiliser Company: an $85m compound fertiliser venture between JPMC, APC and Zen-Noh (Japan's agricultural association), Mitsubishi Chemicals, Asahi Industries and Mitsubishi Corporation. It is due to start up in 1997 at a free zone site adjoining JPMC's Aqaba plant – giving the venture a 12-year tax holiday – and produce an annual 300,000 tonnes of mixed fertiliser, with Jordanian phosphates and potash and the nitrogen component from nearby Saudi Arabia. The entire output is tied up in a long-term export agreement with the Japanese consortium.

> The sector accounts for about a third of Jordan's annual exports

- Indo-Jordan Chemicals Company: a $175m phosphoric acid plant created by JPMC, Southern Petrochemical Industries of India, and the Saudi-based Arab Investment Company (where there are also plans for a $60m expansion). It is also due to start in 1997 and has free-zone status, based alongside Eshidiya mine. Its annual capacity target is 225,000 tonnes, with an 11-year purchasing agreement.
- The FFC-Jordan Fertiliser Company, which JPMC and Fauji Fertiliser Company of Pakistan agreed to set up in 1994, with a $370m plant at Port Bin Qasim, Karachi. It will manufacture 450,000 tonnes of DAP and 550,000 tonnes of urea a year. In addition, a $170m facility in Jordan will produce 200,000 tonnes of phosphoric acid for a 13-year purchasing agreement with the Pakistani end of the operation. The combined project is due to start up in 1998.
- A still unspecified fertiliser venture between JPMC and a Norwegian company believed to be Norsk Hydro, said, by the Jordanian energy ministry, to require investment of $350m.
- The first Jordan-Israel joint venture, between APC and Israel's Dead Sea Bromine Company, to produce 25,000 tonnes of bromine (mainly used as a fire retardant) at a $50m, Jordanian-managed facility on Jordan's side of the Red Sea. A memorandum of understanding on this historic "peace project" was signed this month, and ultimately the venture may require another $100m.

Beyond this, APC is looking to expand its potash output. Its existing $480m Dead Sea facilities have added a $130m expansion, raising output to 1.8m tonnes a year, and a second $160m expansion is under way, to increase output to 2.2m tonnes by 1998.

As a natural nutrient for food and soil that is so far immune to the environmental backlash against nitrates, potash has a bright future. Consumption is expanding at a steady rate of 4 per cent a year. As Mr Hawari puts it, "fertiliser consumption will go up for as long as populations grow".

■ **Stock market:** by Julian Ozanne

Bureaucracy blights trading

Despite reforms, political obstacles still stand in the way of new foreign investment

Jordan's stockbrokers look rather enviously at Lebanon where the bourse, closed for 12 years because of the civil war, is to begin operating before the end of the year. It will enjoy a fully computerised trading system, liberal foreign investment procedures and a market capitalisation that will top Amman's $5bn.

In the days of increasingly fierce competition for capital flows into emerging markets, there are fears that Jordan's stock exchange, once the envy of its regional competitors, could miss out on an investment wave into the Middle East in the wake of the unfolding peace process.

The market's boom of 1991-1993, which saw the all-share index climb 100 per cent in three years, has receded and been replaced with a prolonged slump. A revival is now dependent primarily on foreign investment.

There are plenty of reasons to stimulate foreign interest. A macro-economic stabilisation programme has delivered sustainable growth of about 6 per cent a year and price stability. Peace with Israel has opened up new trade, tourism and investment opportunities. Recent laws have improved the investment climate and low stock prices, with an average price/earnings ratio of 16.5, make the market attractive.

But many of the US and European funds and international investment houses such as Barings, Foreign and Colonial and Lehman Brothers that flocked to Jordan during 1993 have had their interest beaten down. Bureaucratic and political obstruction have impeded easy investment.

Unless the government deepens its commitment to economic liberalisation, privatisation and foreign investment, and matches the more liberal conditions given to foreign investors in competing markets such as Egypt, Morocco and Lebanon, Jordan will continue to be sidelined.

"Historically, the issue of foreign investment has not been dealt with well and there is still an ambiguity in some government departments as to whether foreigners are welcome," says Angus Blair, head of Mediterranean and Middle East research at Barings Securities. "Jordan has begun to make the right moves but is being left behind by other markets in the region."

The need for foreign investment on the market is particularly acute as the domestic equity investment boom appears to have run out of steam. Activity soared on the Amman Financial Market (AFM) in 1992 and 1993. Turnover rose from JD302m in 1991 to JD887m in 1992 and JD969m in 1993, and the AFM general index rose from 100 in January 1992 to 158.5 in January 1994. Much of the boom was the result of delayed reaction to the devaluation of the Jordanian dinar in 1989 and a massive influx of savings from Jordanian expatriates working in the Gulf who were forced home after the Gulf War.

The market began to correct itself in July 1993 when the Central Bank of Jordan curbed commercial bank lending for stock purchases and the index fell from a peak of about 180. The index closed at 158.3 points at the end of 1993 and fell 9.4 per cent to 143.6 at the end of 1994. Annual turnover in 1994 fell to JD495m.

Prices have rebounded about 11-12 per cent in 1995, with the index currently hovering around the 160 mark. Daily turnover has increased to JD1.4m from 1994 average of JD800,000, but is still well below the levels of 1992-1993.

Tight monetary policy and depressed market sentiment have kept prices low. Any liquidity available in the past two years has been sucked into the primaries issues market. More than JD890m has been raised in the primary market since the beginning of 1993 in a mixture of Initial Public Offerings and capital increases of exiting companies. Many of the issues have been heavily oversubscribed several times.

Amman brokers envy the liberalism of other Arab markets — Reuter

Local investors are unlikely to return in force to the market until monetary policy is eased. Many Jordanians are also waiting for lifting of the United Nations sanctions against Iraq, which, before the Gulf War, accounted for 25 per cent of Jordan's exports. Fears are also widespread, although probably unfounded, of a devaluation of the Jordanian dinar.

Foreign investment is, therefore, crucial to the market's future growth. So far, there appears to be no shortage of overseas interest. According to Mohamed Tash, general manager of National Securities, between 1993-1995 56 foreign funds applied to invest $450m on the AFM. The government eventually approved up to $200m of foreign investment but only after lengthy delays that irritated investors. No new approvals were granted since July 1994.

The government's recent reform measures should help. Reductions across the board in corporate taxation will boost company profits. The government has abolished the requirements that forced foreign investors to get government approval – this will now be undertaken by AFM officials. More substantial foreign selective buying is now expected in wake of the changes, particularly in the tourism and services sectors.

But as yet, pending government approval of a bye-law, it remains unclear how free and easy the process of foreign investment is going to be. Furthermore, the government appears to have retained a rule that restricts foreign ownership in all sectors of the economy – except industry – to a maximum of 49 per cent. This rules out foreign investment in several attractive highly capitalised companies, especially banks like Arab Bank and Housing Bank, where non-Jordanian Arab investors like the governments and government agencies of Saudi Arabia, Kuwait, Qatar and Oman have already reached the 49 per cent ownership ceiling.

Foreign investors say these restrictions should be reviewed and the government needs to make much bolder and unambiguous commitments to foreign investment both in terms of procedures and in terms of ownership.

"There will be no dramatic surges in foreign investment like that in Morocco until there is a more clear and unambiguous government commitment to liberalisation," says Mr Blair.

Furthermore, investors want to see the privatisation programme speeded up with clear timetables, especially as the government and its agencies hold stakes in about 80 listed companies across the entire range of industrial, insurance, banking and service companies.

In addition, the market must quickly modernise itself to compete effectively with other Middle East exchanges. While the AFM is taking steps to increase the capital requirements and reporting of brokers, foreign investors have expressed alarm that AFM plans to introduce a computerised trading system now look likely to take effect only in 1998. Although companies such as National Securities are providing increasingly detailed analysis, there is still a dearth of solid equity research and information and measures need to be taken to develop the underwriting business.

Many in the private sector regret that Jordan missed an opportunity to develop into a financial and service economy during Lebanon's civil war. Now they fear that once again, without radical and fundamental change of heart in political and bureaucratic circles, Jordan could once again lose out as investment flows to more open and favourable markets in the region.

■ **Politics:** by Julian Ozanne

Hussein's paternalism lingers

The powerful personality of the king is inhibiting the development of democracy

In the small Nabil and Hisham theatre in central Amman Jordanian players perform a lampooning political satire of Arab leaders including King Hussein that, if performed in almost any other Arab state, would quickly land them in jail.

It is a mark of Jordan's political liberalism in a region of dictators and absolute monarchs that not only should the play be allowed to go on but that King Hussein has himself been to see it and laughs warmly at the mention of the skit which parodies his polite mannerisms.

Since anti-government rioting in 1989 forced the king to lift 22 years of martial law and hold parliamentary elections Jordan's democratisation experiment has been a hailed as a role model for regional reform. The country has returned to political pluralism and the Islamic opposition has been allowed to take part in the constitutional life of the nation, an experiment viewed with alarm by many of Jordan's Arab neighbours.

But there remains a permanent tension in Jordan between the demands of genuine democracy and the continuing paternalism of the popular monarch.

The tension is underlined by a belief at the Royal Diwan, shared by many of the kingdom's citizens, that after having led his unlikely country successfully through 43 years of turbulence, King Hussein often knows better than his people.

The last minute banning in May of an Islamic-organised national conference called to oppose the king's peace policy with Israel was the most overt sign of the lingering authoritarianism of the regime. The move provoked Ibrahim Izzedine, viewed as a champion of political liberalism inside the government, to resign from the cabinet of Prime Minister Sharif Zeid Bin Shakar, the king's cousin.

Parliamentarians also complain bitterly about:

- the weakness of parliament;
- an electoral law that marginalises the Islamic opposition and promotes rurally based tribal representatives;
- the continuing disenfranchisement of Jordanians of Palestinian origin in favour of ethnic Jordanians – the bedrock of support for the Hashemite monarchy; and
- an atmosphere, rather than specific laws, which inhibit freedom of expression.

> The king towers above all other political figures and is genuinely loved

Many of the constraints on the development of a deeper democratic culture are due to the powerful personality of the king. He towers above all other political figures and is genuinely loved throughout the kingdom – a fact well demonstrated by the spontaneous outpouring of affection for the 59-year-old monarch when he returned home in the summer of 1992 after surviving a successful operation for stomach cancer.

The king's critics say he too often uses his dominant political position to unfairly influence policy and interfere in parliament. Members of parliament are often called one by one to the palace for "consultations". The king's constant speeches on all aspects of life in the kingdom also appear to have a disproportionate influence on policy makers and the judiciary.

In addition, the king retains immense powers under the constitution appointing the cabinet and the senate, the upper house of parliament. Even middle level government appointments often have to be approved by the palace and prime ministers, usually representatives of Jordan's loyal leading families, are frequently changed by royal prerogative.

"The king has ruled this way all his life which is fine so long as we don't call it a democratic system which fully respects human rights. It is a controlled democracy," said an influential parliamentarian.

At a conference earlier this month, deputies called for measures to strengthen parliament including increasing its session from six to eight months, increasing its members from 80 to 100 or 120 and providing better resources for members.

Particular criticism was levelled against the electoral law which was amended for the 1993 elections to give voters only one vote for the country's 20 multi-member constituencies.

The system, which resulted in the reduction of Islamic deputies from 34 to 16, is criticised as favouring easily manipulated tribal representatives at the expense of urban, national or ideological candidates.

Taking part in constitutional life: Muslim fundamentalist women cast their votes in July's municipal elections AP

Reformers also want a redrawing of constituencies on the basis of geography and population density and the supervision of elections to be transferred from the executive to the judiciary.

The king appears to recognise the limits of Jordan's democratic experiment. He told the Financial Times the experiment was a process that would take some years and that he hoped for the development of fewer political parties. The current 23 political parties, he said, were a "crowd that can't go through a corridor easily".

But he rejected criticism that his hands-on style had inhibited the development of sustainable democratic institutions.

"I have been the strongest advocate of democracy and parliamentary life in Jordan and ... I will do everything I can to ensure continuity," he said.

"I believe the strongest element in that is to have this kind of participation in shaping policies and then the dependence on an individual becomes less needed ... The people of Jordan are far more mature than some who are involved in politics."

The king's royal advisers are less diplomatic. A senior palace official acknowledged a certain amount of government gerymandering of electoral boundaries in 1993 to marginalise the Islamic opposition but stressed that this was no different that electoral manipulation in some western democracies, including Britain.

He said that Jordanians still had to be taught about the responsibilities, obligations and disciplines of democracy rather than its rights. "We have to educate and guide," he said.

Many Jordanians agree with the Diwan. They say Jordan's democracy needs to be judged not by western standards but in the context of an unstable and undemocratic region still prone to upheavals and malign interference from neighbouring states.

However, others believe that unless Jordan's democratic experiment is deepened, tribal pressures and urban discontent will undermine the progress achieved so far. They say further development of democratic institutions is vital to long-term stability, especially as the king, whose power and prestige is not necessarily transferable to a successor, is no longer around to exercise his benign influence.

■ **Foreign policy:** by David Gardner

Moving towards regional centre stage

The kingdom is repositioning itself as one of the Middle East's powerbrokers

In little over a year, Jordan has repositioned itself at the centre of Middle Eastern affairs and international interest in the region's stability, upsetting several of its powerful Arab neighbours in the process.

King Hussein's astute reading of fast-moving events has moved Jordan a long way from its near-outcast status five years ago, when the country was reviled in the west, Egypt, Syria and the Gulf for its ambivalent attitude towards Iraq after Saddam Hussein's invasion of Kuwait.

After the Palestine Liberation Organisation and Israel came out in 1993 with their secretly-negotiated Oslo accord – for Palestinian self-rule in the occupied territories seized from Jordan in the 1967 Arab-Israeli war – Jordan felt free to seal its own peace treaty with Israel, a year ago tomorrow. In recent months, moreover, the kingdom has realigned itself against Saddam's internationally outlawed regime in Baghdad.

Jordan fiercely rejects charges, particularly by Syria, that it broke Arab ranks and provided Israel – the economic as well as military power in the region – with a bridge into a divided Arab world. Egypt had gone before (in 1979), and once the PLO had opted for its own accord, the biggest restraint on Jordan disappeared. "We all started at the same point in Madrid," King Hussein told the FT earlier this month. "We have our hopes and future to look after," he said, adding: "Jordan will never be a card in anybody's hand to play."

Last August, two of Saddam Hussein's sons-in-law, in charge of Iraq's military programme and security, defected to Amman. The king gave them asylum and called for political change in Iraq – winning fulsome plaudits in the US, which immediately upgraded Jordan as a regional powerbroker – and warned it would defend the kingdom against any Iraqi aggression.

King Hussein's volte-face on Iraq has evolved since August into more detailed prescription for that country's uncertain future. He says that the arrival in Amman of "these unexpected guests" was the moment when the extent of Iraq's internal decomposition – "strangled from without" by UN sanctions and "oppressed from within" by the Saddam regime – became clear to him.

In the interview – on the day of the referendum when 99.96 per cent of Iraq's cowed population endorsed Saddam's presidency – King Hussein condemned the plebiscite as a "dangerous farce". He said it could speed up the disintegration of the country between its Kurdish North, Shi'a Moslem South and a centre under the weakening grip of Saddam's (Sunni Moslem) Takriti clan, leading to a regional crisis worse even than the Gulf crisis.

What was most needed, the king said, was to get "credible representatives of the three major components of Iraq's people somewhere to sit together and work out a national reconciliation between themselves".

Such an exercise, which almost certainly would have to be held outside Saddam's reach, should lead to new constitutional arrangements, in which "a federated Iraq might be the answer" to fears that Iraq will break up.

These fears, along with suspicions that Jordan's Hashemite royal family might have plans to regain the Iraqi throne its cousins lost in a bloody 1958 coup, coursed through the region after the king's definitive break with Saddam.

Syria's rival Ba'athist regime, along with Iran's mullahs – Iraq's bitterest foes in the region – came quickly to

> The king acknowledges that his ideas are meeting resistance

the view that Saddam and the status quo were preferable to a disintegration of Iraq which could suck in neighbours from Turkey to Saudi Arabia and expand Hashemite influence.

Egypt, the US's chief Arab ally since its 1979 peace with Israel and the traditional regional power until the Middle East peace process strode ahead, was upset at its further marginalisation in regional affairs and sniped at Jordan for interfering in Iraq's affairs.

The king acknowledges that his ideas are meeting resistance, if not that he is isolated on Iraq among his Arab peers. "There is not much evidence of support in the region so far," but "a lot of people are listening," he said. "A bloodbath in Iraq and the fragmentation of Iraq are too terrible to contemplate in terms of this region's stability and future."

After Jordan's exploratory contacts with Qatar and Oman earlier this year, the king's new approach to Iraq has helped the country mend fences with the Gulf – particularly with the al-Saud ruling family of Saudi Arabia, which early this century drove the Hashemite rulers of the Hijaz out of eastern peninsular Arabia.

Ambassadors have been exchanged for the first time since the Gulf crisis. Jordan plans to explore alternative sources of oil with the Saudis, who cut their supply in 1990, leaving the kingdom dependent on Iraq. In addition, a royal summit with King Fahd is mooted.

For all this, Jordan's most difficult regional relationship will be that of the Palestinians and Israelis. The relationship is rich in economic potential but remains a political minefield.

Most of Jordan's citizens are of Palestinian origin, while the country has a history of bad blood with the PLO, which the (ethnic Jordanian) army crushed in a 1970-71 civil war. The king ceded all responsibility for regaining the West Bank to the PLO in 1988.

Now that some form of Palestinian state is in prospect following September's PLO-Israel agreement on expanding Palestinian self-rule in the West Bank, Palestinians still suspect Israel and Jordan might collude to limit the development of such as state.

Still to be resolved, moreover, is the eventual nationality of Palestinian Jordanians. Israel wants some form of confederation with the Palestinians and Jordanians. The PLO suspects this is a ploy whereby Jordan would assist Israel in keeping Palestinian territory under control.

PLO chairman Yassir Arafat, according to the king, has thus come up with his own confederal plan. "I told him to keep the paper in his pocket," King Hussein said. "Nothing could be more harmful to Jordanian-Palestinian relations ... than the suggestion that Jordan wants any influence." As far as he is concerned, the question is off the agenda until self-rule in the West Bank and Gaza is more firmly and democratically implanted.

It is too soon to talk of a new Arab order and too far-fetched to see a country the size of Jordan, however pivotal for its neighbours, as a driving force in the region.

Nonetheless, King Hussein, who wants his country to be at the centre of a new regional architecture of peace, democracy and development, is trying to offer a lead, and clearly believes the time is ripe.

"It has taken a long time in this country to come to the point where we believe in ourselves, and [believe] that Jordan has something to say."

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■ **Tourism:** by Julian Ozanne

The biggest beneficiary of peace

The government is facing an initial challenge of managing possible unruly growth

When the enigmatic Lawrence of Arabia led the disparate Bedouin tribesmen of the Arab revolt into Wadi Rum, a tremendous desert valley with towering red sandstone mountains, he was overwhelmed by its sublime "vast, echoing and God-like" beauty.

The romantic allure of Wadi Rum still holds true today, but only just, as Jordan begins to experience a tourist boom in the wake of unfolding Middle East peace and growing international perceptions of enhanced regional stability and security.

For the first time in its turbulent history, Jordan is exploiting its tremendous tourist potential and turning the sector into one of the most important in its economy and one of the richest areas for investment and growth.

Many of the grandiose "peace" projects being contemplated – such as a Red Sea Riviera around the Gulf of Aqaba linking Egypt, Israel and Jordan and multi-million dollar theme parks around the Dead Sea – may never materialise. But a burst of private sector investment is already under way and the government is faced with the immediate challenge of managing what could become unruly growth.

Jordan's tourist riches are immense. As a traditional crossroads of ancient trade routes, most of the great historical civilisations have left their mark on Jordan from the Moabites to the Romans and Crusaders. Attractions include:

- the unparalleled Nabatean city of Petra carved out of rose red sandstone;
- the Graeco-Roman city of Jerash, one of the best preserved ancient sites;
- the Red Sea;
- the Dead Sea;
- Mount Nebo where Moses first saw the promised land;
- Islamic and crusader castles; and
- vast unspoiled deserts and a still hospitable Bedouin culture.

Jordan is also tapping the Lawrence legend, immortalised in modern pop culture by the David Lean film. Sites associated with the controversial figure include Wadi Rum, Aqaba, the remnants of the great Hijaz railway and the Roman-Arabesque fortress at Azraq.

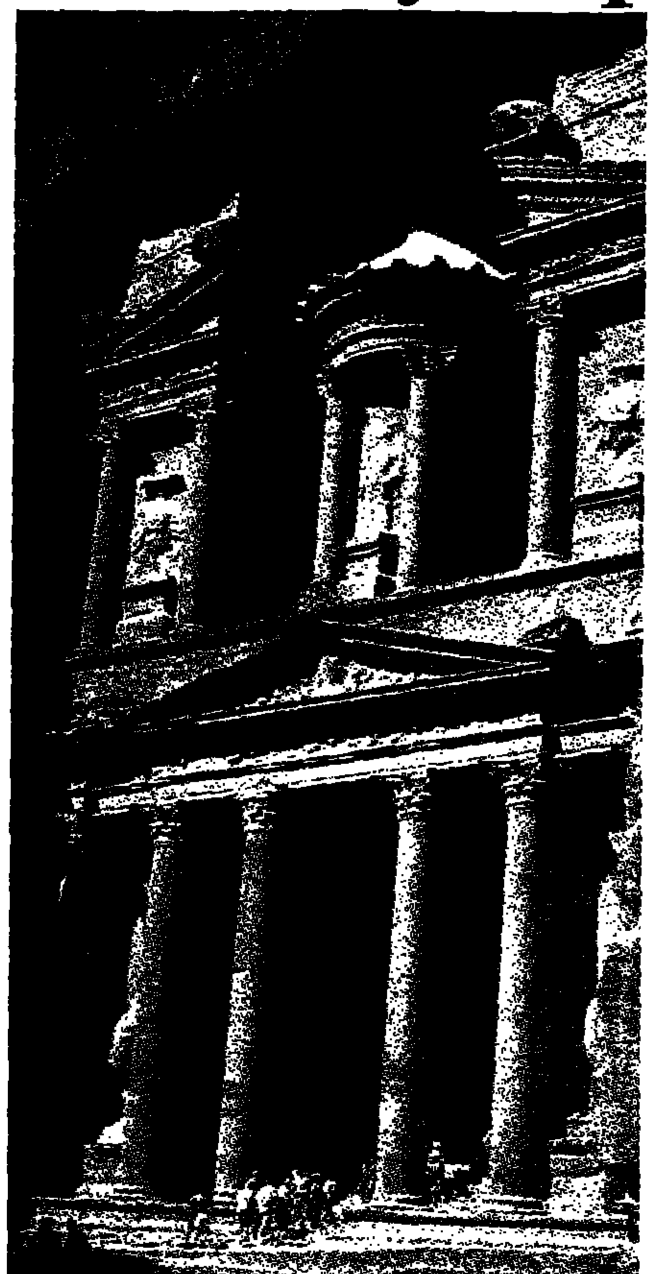
Until Jordan's October 1994 peace treaty with Israel the country's tourist assets were largely untapped and many were neglected. Since the peace agreement the country has been almost overwhelmed by a new influx of tourists, many from the hitherto dormant and lucrative North American market which previously stayed away from a region associated with violence and instability.

According to figures from the tourism ministry, in the first six months of 1995 tourist arrivals increased 40 per cent from 317,331 to 445,157 over the same period of 1994. The biggest increase, albeit from a low base, was tourists from North America which increased 81 per cent from 27,338 to 49,719. European tourism is up 57 per cent and in the first six months of open borders to Israel 52,144 Israelis toured the kingdom.

> The government appears unsure at present exactly how to manage the explosion of activity

Although figures are not yet available, earnings from tourism are expected to grow substantially in 1995 from last year's $600m – equivalent to 10 per cent of gross domestic product – making the sector a much needed source of foreign exchange to ease the country's balance of payments problems.

Arrivals should increase further as the effects of Israeli-Jordanian joint promotion and marketing make the region increasingly attractive for multi-destination packages and Jordan is featured more in travel brochures and conferences.



The Nabatean city of Petra carved out of rose red sandstone

Joint promotion of the region, with tourists now able to divide their stay in the Holy Land between Israel and Jordan, is critical. A joint offer by El Al and Royal Jordanian airlines in the US, for example, makes it possible to fly into one country and leave from the other.

"Tourism will undoubtedly be the biggest beneficiary of peace," said Munir Nassar, managing director of one of Jordan's large tour operators. "In the next three to five years we will witness an annual growth of 25-30 per cent as Jordan is featured more in the markets of Europe and the US."

In the peak months of March and April the sudden rapid increase in tourism led to overcrowding of some sites, particularly Petra and stress on the country's limited transport facilities. Managing the tourism boom has become the government's greatest challenge.

"We need to be careful about increasing capacity too rapidly," said Abdulellah al-Khatib. "We need gradual and stable management because the rapid development of tourism puts a toll on our fragile archaeological sites."

The pressure has been intensified by rapid private sector hotel building and the number of hotels rooms is expected to increase from 6,900 to 10,000 by the end of 1996. In Petra six new hotels are under construction adding 1,750 rooms to the existing 840 and placing stress on the roads and sewage.

In Amman eight three-star hotels are under construction and four five-star hotels – a Hyatt, Sheraton, Holiday Inn and Hilton – are in various stages of development, promising to double the capital's 1,000 five star hotel rooms is a short period. The existing Intercontinental and Marriott are also planning expansions.

The sudden boom in hotel building concerns existing hotels whose occupancy rates this year have risen to more than 80 per cent. "The government is not interfering with the private sector which is the right policy," said Richard Lyon, general manager of the Marriott. "But if all the hotels come on stream at the same time the hotel business could suffer."

The government appears unsure at present exactly how to manage this explosion of activity given its commitment to non-interference in the private sector. Mr al-Khatib says the ministry is against mass tourism. "Our competitive advantage is to focus on quality tourism," he said.

But it is unclear how this objective is to be achieved. Private sector tour operators have their suggestions for controlled growth.

Continued on page 6

■ **Regional integration:** by Julian Ozanne

Trust is beginning to be established

Jordan and Israel are so far the most solidly committed to the development of co-operation

When Jordan hosts about 1,700 businessmen and government officials at the Middle East/North Africa economic summit in Amman this weekend, the kingdom will be putting itself at the centre of a new region evolving towards integration and co-operation in the wake of unfolding Middle East peace.

But, despite the summit's ambitious claims to be about a region extending from the Atlantic to the Persian Gulf, the meeting will be more about the so-called Israel-Palestine-Jordan triangle and, to a lesser extent, Egypt.

Efforts at the development of regional tourism and infrastructure, co-operation in telecommunications, transport and electricity and removing trade barriers as the first step to a regional free trade zone focus largely on the triangle and a reluctant Egypt.

Jordan and Israel are so far the most solidly committed to the development of integration and the economic liberalisation which must precede it.

The two countries have signed a range of co-operation agreements from tourism to transport, a trade agreement is due this week and as well as an announcement of a series of projects to develop and protect shared geographical assets, including the Jordan Rift Valley, the Dead Sea and the Gulf of Aqaba.

Jordan will be presenting 27 national projects in tourism, transport, mining, telecommunications and water. These are worth $3.5bn to investors and donors at the Amman summit.

The Palestinian authorities, which have agreed a customs union with Israel, are keen on economic links but are continually at loggerheads with Israel over the political aspects of the unsatisfactory peace process.

Egypt has expressed interest in better regional tourist development but is neither politically nor economically willing to take the liberalisation steps necessary to become part of an embryonic regional trading bloc.

Many of the problems in the drive towards regional integration come from continuing Arab suspicions about regional economic hegemony by Israel. But even among Arab countries there is deep competition and jealousy.

"There is a lot of tension between the four parties, particularly between Egypt and Jordan and between Israel and the Palestinians," said a western official. "Everyone is worried about who will be the losers and who will to be the winners in the short term from changing patterns of trade and transport routes. Regional integration only works when all parties take the long view."

> The sector that has attracted the most enthusiastic private sector participation has been tourism

Nevertheless, the creation of standing committees – consisting of officials from the four main parties – is building trust. Once the process is extended to the private sector, with joint ventures and business links, the process should gather momentum.

To this end, the announcement of a Middle East development bank, and regional private sector business and tourism councils at the summit will help to cement regional relationships.

So far efforts at integration – being carried out under the umbrella of the Regional Economic Development Working Group or REDWG – are focusing on four areas:

- Trade;
- Tourism;
- Infrastructure, including the development of a Middle East transport study and plans to co-operate in telecommunications and electricity; and
- Finance, which concentrates on creating a regional development bank and fostering co-operation between regional stock markets.

So far the sector that has attracted the most enthusiastic private sector participation has been tourism where the unfolding peace process most clearly promises immediate returns with the help of joint promotion and marketing of the region.

Three sub-regional development projects are being established for public and private sector participation:

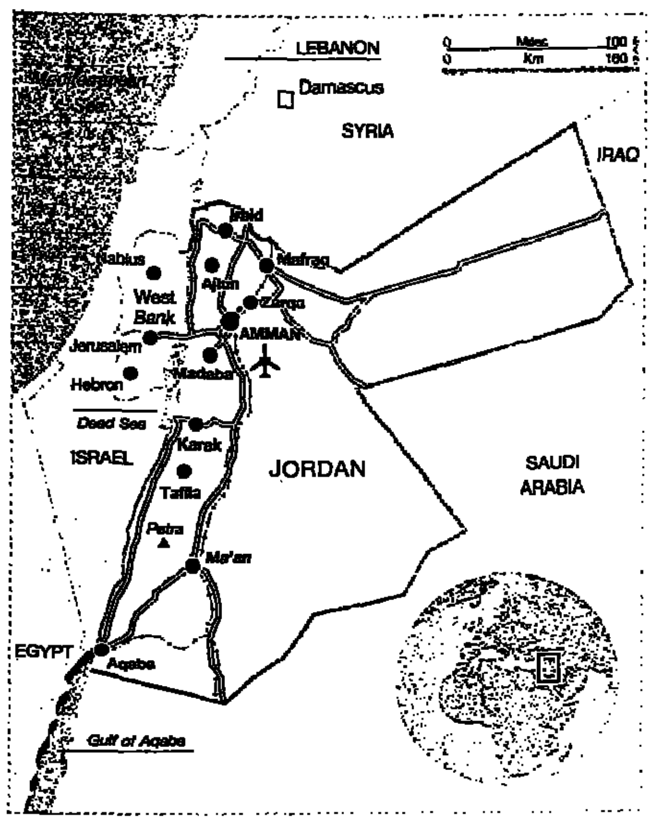
- The development of the Jordan Rift Valley;
- The development of the Gulf of Aqaba; and
- The South East Mediterranean Economic Development programme which covers the coastline from El-Arish in Egypt to Gaza to Ashdod in Israel.

Of these, most progress has so far been made in the Gulf of Aqaba, with projects to contain oil spills agreed and a feasibility study under way for a joint Israeli-Jordanian airport.

Other projects such as the upgrading of bridges, border crossings and roads are expected to be put on a fast track once planning is completed.

But the drive towards integration still rests on the continuing success of the Middle East peace process which remains incomplete until Syria and Lebanon join in and until Israel meets Palestinian aspirations.

"Regional integration and co-operation is hostage to politics," said an official. "It takes place within the space created by the peace process and the extent to which countries open up their economies but as that process develops things become easier."



Economic indicators

	1990	1991	992	1993	1994(a)
GDP at market prices (JDm)	2,668	2,855	3,493	3,882	4,266
Real GDP growth (%)	1.7	1.8	11.3	5.8	5.7
Consumer price inflation (%)	16.1	8.2	4.0	4.7	3.6
Population (a) (millions) (East Bank only)	3.4	3.7	3.8	3.9	4.1
Exports fob (b) ($m)	1,064	1,130	1,219(c)	1,246	1,425
Imports fob ($m)	2,300	2,302	2,999	3,145	3,150
Current account ($m)	-754(c)	-712(c)	-765(d)	-628(c)	-340
Reserves excl gold ($m) (year-end)	849	826	767	1,637	1,693
Total external debt (e) ($m) (year-end)	7,276	7,787	7,184	6,872	5,550
Debt-service ratio (%)	18.2	20.1	18.5	14.6	14.6
Exchange rate (av) JD:$	0.664	0.681	0.680	0.693	0.699
July 28, 1995 JD0.698=$1					

Origins of gross domestic product 1994	% of total
Agriculture	8.0
Mining and quarrying	3.1
Manufacturing	14.4
Electricity and water supply	2.1
Construction	7.4
Trade, restaurants and hotels	9.7
Transport and communications	15.7
Finance and other services	21.7
Government services	19.2
Imputed bank service charge	-1.3
GDP at factor cost	100.0

(a) EIU estimates (b) including re-exports (c) IMF estimates (d) official estimate (e) World Bank, World Debt tables
Source: EIU

PROFILE King Hussein

Remarkable Arab survivor

If King Hussein of Jordan had done nothing more than survive the last half century of turmoil in the Middle East, it would have been remarkable enough. Not for the first time in his 43 years on the throne, he is enjoying a comeback after he and his much-buffeted buffer state refused to engage on the side of the west and its Arab allies in 1990-91, to eject Saddam Hussein of Iraq from Kuwait.

From near isolation in the region and international opprobrium, Jordan is now seen as a central piece in the jigsaw of the Middle East peace process. The king is also seen – with hope in the west and suspicion by his more powerful Arab neighbours – as a powerbroker in the unfolding tragedy of Iraq.

The king's confident recent performance seems natural, but it was not ever thus. He has survived three Arab-Israeli wars as well as the Gulf crisis, revolution from the Nasserites in 1957-58, and civil war in 1970-71 with the Palestinian resistance, driven into the country after Jordan lost the West Bank and east Jerusalem to Israel in 1967.

He has survived numerous *coups and assassination* attempts. Aged 16, he was standing beside his grandfather, King Abdullah, at Al Aqsa mosque in Jerusalem in 1951, when a disaffected Palestinian shot dead the canny *founder of modern Jordan. The bullet* meant for him bounced off a medal on his uniform.

When his Hashemite cousin King Faisal was toppled by a bloody coup in Iraq in 1958, few gave the young King Hussein any chance of survival *in* Jordan – secured, in the event, by British troop rein*forcements and* a US airlift of oil over Israeli airspace.

Jordan was from its origins an improbable country. In the 1920s, the British mandate authorities in Palestine, endorsed by the French mandate government in *(greater)* Syria, ceded Transjordan (or the East Bank of the Jordan river) to King Abdullah as an ungovernable area overrun by lawless Bedouin tribes.

Locked between the Levant *and peninsular Arabia, caught* between Israel and the Palestinians to the west, Iraq to the east and Egypt to the south-west, every political wind to cross the region blusters through Jordan.

King Hussein, according to Kamal Salibi, author of the recent *Modern History of Jordan*, early on "realised the nature of his assets and liabilities". Unlike Gamal Abdel Nasser, the towering pan-Arab *nationalist* ruler of Egypt from 1954 to 1970, King Hussein "always made a point of operating within his limits".

Thus, at the 1964 Arab summit in Cairo, the king went along with Egypt and Syria's *decision to divert the headwaters* of the Jordan river, even though this and the frenzy of nationalism which propelled it, would lead to a war with Israel for which the Arabs were ill-prepared.

In the wake of the cata*strophic* Arab defeat of 1967, the pan-Arab nationalism which led to it was discredited, allowing the Jordanian monarch to go his own way, confident of his assets and less inhibited by his liabilities.

The 1994 peace treaty with Israel and this summer's break with the Iraqi regime *are the* most signal recent examples of this. The moves have earned the king criticism across the region for breaking Arab ranks and, in some eyes, angling towards a Hashemite restoration in Baghdad.

The king, who like all Hashemites descends from the family of the Prophet Mohammed, was once second-in-line to the Iraqi throne. The regional response, he says ironically, "gives me the impression that Hashemite popularity must be more widespread than I had appreciated". But he states flatly that "I gave all that up".

The Harrow and Sandhurst-educated king, has in the past not hesitated to use his cohesive, Bedouin-staffed army to impose order, or promote tribal politicians to ensure loyalty in a country whose population is largely of Palestinian origin. But his liberal instincts have made Jordan *the freest of Arab nations,* with a guided but genuine *democracy*, restored from 1989.

"One of the greatest weaknesses of the Arab world is the absence of pluralism, democracy and human rights," he says, offering Jordan's democratic experience "as an example that works". In the past he has railed at the divisive demagoguery of much of the Arab political class, noting in his 1962 autobiography *that* "ambitious men have made claims without foundation, and promises they could not keep".

Into this gap between rhetoric and reality, he believes, have crept the Islamic extremists. Ignoring the wisdom of his neighbours who repress them, he has co-opted the Islamists into parliament and, in 1991, the cabinet, binding them to a constitutional consensus.

It no doubt helps in this sort of risk assessment to be descended from the Prophet. But the king has shown leadership, as he seems increasingly disposed to do in the construction of regional peace and on Iraq. "I belong firmly in the peace camp," he declares, while warning that the still stuttering peace process is "a race, between those who believe in life and stability [and] the prisoners of the past with all its horrors".

David Gardner

The biggest beneficiary of peace

Continued from page 5

Mr Nassar says policies must be put in place to spread the tourist season throughout the year to use spare capacity in non-peak months. He also says the goverment must speed up infrastructure development and be extremely careful not to allow projects to damage Jordan's precious eco-system.

"To allow the development of hotels inside Wadi Rum would be criminal," he said.

In addition to private sector initiated projects, the government is promoting a series of "peace projects" worth $1bn it hopes the private sector will fund, including:

- The $500m Aqaba South Coast Tourism Development project where charter tourism could provide one of the biggest sources of growth. The project aims to increase Aqaba's current 1,400 hotel rooms by developing the south coast. The first stage of a master plan calls for the development of 3,000 hotel rooms, 1,000 holiday homes as well as restaurants, shops, camping areas and golf courses.
- The $500m Dead Sea Tourism Project to develop 36 miles of shoreline. At present Jordan has only 100 rooms at the Dead Sea compared to neighbouring Israel's 2,000 rooms. The master plan envisages the construction of 15,000 hotel rooms and 18,000 housing units by the year 2010 to exploit the therapeutic and tourist potential of the Dead Sea.
- The development of a joint Israeli-Jordanian airport at Aqaba.
- The joint Israeli-Jordanian development of a "lowest park on earth" around the southern shores of the Dead Sea.

Tourism will undoubtedly be one of Jordan's most important engines of economic growth in the coming decade but managing the growth will determine how the country best exploits its potential.

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COMMODITIES AND AGRICULTURE

Anglo chief downbeat on gold price outlook

By Kenneth Gooding, Mining Correspondent

South African gold producers cannot look to a sharp increase in the metal's price to help them out of their present difficulties, according to Mr Clem Sunter, chairman of Anglo American Corporation's gold and uranium division, the world's biggest gold producer. South Africa has become the highest-cost gold producer.

Mr Sunter suggests that gold's dollar price will continue to trade within a very narrow range, with demand from developing eastern economies supporting the price below US$380 a troy ounce and forward and other sales capping it in the $390s.

He also points out that the South African currency has been stable against the dollar for more than a year and, "while there may be some depreciation, no substantial drop is anticipated".

Mr Sunter says: "With a stable domestic currency and a dollar gold price trading in a narrow range, we do not think it prudent to plan on any sharp increases in the local [South African] price of gold. We might even see further squeezes in our profit margin if local rand price increases do not match unit cost escalation in the industry".

With this in mind, Mr Bobby Godsell, the division's new chief executive, says it is inevitable that Anglo's gold output in South Africa will fall and a number of mine shafts close. Others will reduce the scale of their mining operation. "Management strategy is to achieve this downsizing in a managed way which minimises retrenchment and leaves the least possible gold in the ground."

The division is reviewing costs and "where no value is added, the activity will be abandoned." The division has also set itself the goal of returning to 1993 labour productivity levels and individual companies are reviewing with the unions existing work structure and practices.

● Gold prices could rise to between $400 and $420 an ounce in the short term but will not remain there for long, says Mr Ted Arnold, analyst at the Merrill Lynch financial services group. "A $20 to $30 an ounce move upwards would cut off virtually all Asian, Indian and Middle Eastern jewellery buying interest," he suggests, because the physical gold market is very price sensitive.

A sharp price rise would also result in disinvestment selling from the Middle East, particularly from Saudi Arabia. "Recent estimates by smelters and dealers in the area put the tonnage to be disinvested at between 500 to 700 tonnes once prices get above $400." Also, higher prices would accelerate forward selling by gold producers, particularly South Africans. "That could add another 200 to 700 tonnes of fresh supplies to the market from the $390 level on upwards," says Mr Arnold in Merrill's latest Commodity Market Trends report.

Mr Arnold insists that "profound and irreversible changes have occured in the nature of the gold market since the glory days of the late 1970s and early 1980s."

Exchange controls have been removed throughout the OECD allowing the free transfer of assets between countries and currencies.

The growth of financial futures markets allows institutions to have direct "one on one" hedges against their bond, currency and equity portfolios. "This again does away with the need to buy gold."

Rampant inflation has been eliminated from the world's major economies.

Gold mine supply has risen five fold since the early 1970s. "That extra supply, plus forward sales, keeps the market very adequately supplied at all times," says Mr Arnold.

More base metal supply warnings issued

By Kenneth Gooding

More warnings that some metals will be in short supply next year emerged yesterday as analysts published reports timed to coincide with "Metals Week" in London.

Stocks of aluminium, nickel and lead will be reduced to critical levels before long, suggests Mr William Adams, analyst at Rudolf Wolff, the commodities trader that is part of Canada's Noranda natural resources group.

In Wolff's "Outlook for Metals in 1996" he predicts that a steady rise in aluminium smelter output will be more than offset by consumption growth of 2 per cent. He forecasts that aluminium prices will stay above $1,600 a tonne and move towards $2,200 late in 1996. Wolff predicts a 1996 average price of $1,850.

Mr Adams thinks nickel consumption will grow by 3 per cent at least, leading to a supply deficit and critically low stocks. The three-months London Metal Exchange price is forecast to be sustained at $9,000 a tonne next year.

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	-3,825	to 530,625
Aluminium alloy	+420	to 48,400
Copper	+925	to 182,475
Lead	-3,450	to 195,825
Nickel	-894	to 53,196
Zinc	-3,150	to 727,000
Tin	-230	to 14,390

Wolff sees lead supply shortages driving prices to a peak of $720 a tonne next year, even though demand for batteries from the motor industry is likely to slow down.

These forecasts are based on Wolff's view that global economic growth will be 4.1 per cent next year, well above the growth forecast by many other analysts. Billiton Metals, part of South Africa's Gencor group, is more cautious, going for 2 per cent growth in the OECD countries next year when compiling forecasts for its "Base Metals Review."

Nevertheless, authors Ms Karen Norton and Mr Angus MacMillan agree with Wolff about one metal, saying lead stocks will be at uncomfortably low levels by the end of next year as the market records another big deficit. Supplies are predicted to remain tight into 1997. Billiton sees lead prices averaging $727 a tonne next year and 793.50 in 1997.

However, Billiton suggests that the aluminium market will move back towards balance as 1996 progresses and "this will have a negative impact on prices." It is forecasting aluminium prices averaging $1,650 a tonne next year and $1,550 in 1997.

As for nickel, Billiton says that, although substantial supply deficits can be expected in 1995 and 1996, these follow a period of surplus and stocks will not hit critical levels. In 1997 a combination of higher output and slowing consumption will return the market to balance. Billiton sees nickel prices averaging $8,375 a tonne next year and $7,714 in 1997.

Forecasts of average prices for 1996 for the other LME metals from the two brokers are: copper, Billiton $2,314 a tonne, Wolff $2,500; tin, Billiton $6,612 and Wolff $6,500; zinc, Billiton $1,102 and Wolff $1,150.

There are words of caution for copper and aluminium bears in the latest Commodity Market Trends report from the Merrill Lynch financial services group. Analyst Mr Ted Arnold points out that the Japanese usually begin their GSP (generalised system of preferences) purchases in November. This is copper on which they receive preferential duty treatment. He says the tonnage of refined metal bought rarely varies from 100,000 tonnes. "The LME is the only reservoir of surplus refined metal that we know of, which is why some market reports say that about 30,000 tonnes of the Long Beach [LME] stocks are already controlled by Asian merchants. Recent option activity also points to higher prices in the December-February period. The options market might be saying: Don't be too short for too long."

As for aluminium, Mr Arnold suggests that, "with LME cash prices at or below the $1,625 level, very few of the big producers will be in a hurry to restart idled capacity." He says an average price of $1,650 a tonne is needed to justify producers expanding capacity.

Change of emphasis urged at UN food agency

John Madeley on criticism of the FAO's 'hi-tech' approach to agricultural problems

The United Nations Food and Agriculture Organisation celebrated its 50th anniversary last week, in the same hall in Quebec, Canada, where it was founded.

In 1945, governments of 44 countries gave the FAO a mandate to improve the efficiency and production of agricultural products, raise levels of nutrition, and contribute to "humanity's freedom from hunger".

Half a century later, however, there are probably more chronically hungry people than ever before – around 800m, estimates the FAO – although they account for a declining proportion of global population.

"Substantial progress" in food production has been achieved, it says, with "dramatic results" from the application of science and technology. Cereal yields have jumped to an average of 2.7 tonnes a hectare, from 1.4 tonnes in the 1960s; world agricultural production has doubled in the last 30 years; and agricultural trade has risen three-fold.

"More food has been reaching a greater number of people", says the FAO, "and an end to chronic hunger can be achieved." The availability of calories per person has increased from 2,300 to 2,700 a day, "despite an increase of over 2,400m in the world's population".

The problem is that while the world grows enough food for everyone, about one person in seven is still chronically hungry, mostly in Africa and Asia. World food stocks, another FAO concern, are also "below minimum safe levels" for food security, it says.

But not everyone believes that the FAO, which funds agricultural projects in developing countries, is pulling its weight. It has come under attack from non-governmental organisations for persuing "hi-tech" solutions to agricultural problems that may not lead to sustainable output and could damage land. Several donor countries, notably the US, have not been happy with FAO's large bureaucracy in Rome, where over two-thirds of its professional staff are employed.

Soon after taking over as director-general in January 1994, Mr Jacques Diouf of Senegal called for a "new and relentless war on hunger and malnutrition", and for the FAO to be re-invigorated to make it more effective. He launched a "special programme on food production for food security in low-income, food-deficit countries".

Now 88 countries fall into this category, 44 of them in Africa. While the programme talks of the need for sustainable agriculture and farmer participation, it focuses "on better endowed agricultural areas, in order to make a quick impact on food production".

Critics allege that the approach still relies too much on "hi-tech" solutions which require external inputs that small farmers cannot usually afford. FAO's recent thrust, says Mr Jules Pretty, director of the sustainable agriculture programme at the International Institute for Environment and Development, is to take the line "that low-input agriculture is always low-output, and that fertilisers and pesticides are the only way to feed the world and that chemical inputs protect world food security".

Mr Pretty describes this approach as "curious". Recent evidence from many parts of the world, he says, is showing that low-input agriculture can be highly productive "provided farmers fully participate in all stages of technology development and extension".

Improving the farmers' own capacity to innovate could unlock a "huge potential for productive and sustainable agriculture", he points out, "food output from the same land can be increased two or three-fold, and sometimes more, with resource-conserving technologies and practices which do not damage the environment".

Ministers of agriculture and officials from over 160 countries held a 3-day meeting in Quebec earlier this month to discuss an FAO document that warned that yields from Green Revolution technology, which "performed so spectacularly in the past were plateauing" and that land degradation was increasing. On October 16 they approved "the Quebec Declaration", and reaffirmed FAO's objectives. But the difference from 1945 was in references to the need for sustainable agriculture.

If the FAO is to survive "another ten, let alone 50 years, then it will have to show that it adds considerable value through its work", says Mr Pretty.

By giving a distinctive lead on agricultural policies that promote sustainability, the FAO could make a difference, he believes.

Rain boosts Australian harvest hopes

By Nikki Tait in Sydney

Recent rainfall on both the east and west coasts of Australia has prompted the Australian Bureau of Agriculture and Resource Economics to lift its forecast for the 1995-96 wheat harvest by 500,000 tonnes to 16.7m. This would be 85 per cent higher than the drought-affected figure for the previous year.

The government-owned forecasting agency noted that severe frosts had adversely affected yield prospects. It said, however, that while the 602,000 tonnes forecast to be produced in Queensland was below average levels it would still be three times the figure achieved last year.

Similarly, while northern New South Wales – a much bigger wheat-producing state – had also suffered frost damage, total wheat production there should total almost 4m tonnes, more than five times the 1994-95 harvest.

Overall, Abare forecast that Australia's total winter crop production would recover by around 88 per cent to to 27m tonnes.

On summer crops, the forecaster said that the area planted to cotton should expand by around 17,000 hectares, to 226,000 hectares. But it warned that there were still severe limitations on the availability of irrigation water, for the fourth season running. Despite a switch by growers to more "rain-grown" plantings, it forecast total Australian cotton production at 295,000 tonnes, 21,000 tonnes less than in 1994-95.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1641.5-42.5	1679-80
Previous	1626-27	1663-64
High/low	1641/1626	1678/1663
AM Official	1637-37.5	1674.5-75
Kerb close		1675-76
Open int.	219,817	
Total daily turnover	41,266	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1400-05	1435-40
Previous	1380-90	1420-30
High/low	-	-
AM Official	1400-10	1440-50
Kerb close		1430-40
Open int.	3,085	
Total daily turnover	918	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	689.5-91.5	673-74
Previous	659-71	661-62
High/low	698	679/668
AM Official	697-98	676-77
Kerb close		674-75
Open int.	32,949	
Total daily turnover	11,767	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8280-90	8395-8400
Previous	7990-8000	8115-20
High/low	8190	8500/8250
AM Official	8190-95	8310-15
Kerb close		8450-55
Open int.	44,454	
Total daily turnover	15,816	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6175-85	6240-50
Previous	6160-70	6230-35
High/low	-	6270-45
AM Official	6170-80	6240-45
Kerb close		6245-47
Open int.	19,081	
Total daily turnover	3,061	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	966-67	990-91
Previous	955-56	979-80
High/low		983/983
AM Official	962-63	986-87
Kerb close		991/92
Open int.	80,083	
Total daily turnover	10,429	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2805-10	2707-08
Previous	2760-65	2696-97
High/low	2820/15	2725/2690
AM Official	2810-15	2717-18
Kerb close		2708-09
Open int.	187,931	
Total daily turnover	78,207	

■ LME AM Official £/$ rate: 1.5820
LME Closing £/$ rate: 1.5817

Spot: 1.5794 3 mths: 1.5762 6 mths: 1.5719 9 mths: 1.5680

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	128.20	-1.30	129.10	128.00	325	552
Nov	125.90	-1.45	126.40	125.80	105	1,612
Dec	123.95	-1.40	125.70	123.25	4,574	23,063
Jan	122.95	-1.40	124.50	122.80	27	605
Feb	121.35	-1.40	123.00	123.00	1	446
Mar	120.80	-1.35	122.40	120.50	585	6,199
Total					N/A	N/A

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	382.20-382.60		
Opening	382.40-382.80		
Morning fix	382.55	242.120	431,249
Afternoon fix	382.50	242.012	433.584
Day's High	382.60-383.00		
Day's Low	382.10-382.50		
Previous close	382.50-383.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.78	6 months	3.60
2 months	3.74	12 months	3.64
3 months	3.51		

Silver Fix	p/troy oz.	US cts equiv.
Spot	338.25	535.25
3 months	342.80	541.40
6 months	347.45	547.50
1 year	356.95	559.85

Gold Coins	$ price	£ equiv.
Krugerrand	382-384	241-243
Maple Leaf	393.00-395.50	
New Sovereign	87-90	55-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	382.6	-	-	-	261	92
Dec	384.2	-	384.5	383.8	6,190	107,882
Feb	386.2	-	386.5	386.0	1,193	24,746
Apr	388.6	-	388.7	388.4	17	9,923
Jun	391.2	-	-	-	20	10,835
Aug	393.7	-	-	-	25	2,870
Total					8,188	192,197

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	411.5	-1.4	412.0	412.0	8	474
Jan	412.0	+0.1	412.5	410.1	1,237	20,202
Apr	412.2	+0.2	411.0	411.0	46	1,620
Jul	413.3	+0.1	-	-	51	1,862
Oct	413.5	+0.1	-	-	4	126
Total					1,342	24,888

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	136.40	+0.45	136.75	135.95	213	4,884
Mar	137.65	+0.30	137.75	137.25	158	1,136
Jun	139.00	+0.30	-	-	-	125
Total					371	6,146

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	533.8	+0.5	530.0	530.0	40	-
Dec	536.7	+0.5	538.0	533.0	5,993	83,049
Jan	538.4	+0.5	-	-	-	26
Mar	543.5	+0.6	544.0	540.0	229	14,418
May	547.6	+0.6	546.5	546.5	14	6,828
Jul	551.5	+0.6	550.0	550.0	8	6,473
Total					6,255	105,030

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	17.32	+0.11	17.42	17.16	42,995	107,894
Jan	17.14	+0.07	17.22	17.03	12,498	52,905
Feb	17.05	+0.04	17.12	16.97	2,437	23,184
Mar	17.00	+0.03	17.06	16.93	1,111	18,446
Apr	16.96	+0.03	17.00	16.95	591	13,273
May	16.92	+0.03	16.97	16.92	365	7,974
Total					72,049	331,008

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	16.05	+0.11	16.13	15.88	22,864	87,616
Jan	15.95	+0.12	15.98	15.79	6,843	37,863
Feb	15.84	+0.07	15.88	15.70	1,107	11,508
Mar	15.76	+0.06	15.77	15.66	468	7,069
Apr	15.70	+0.05	15.75	15.72	491	3,473
May	15.66	+0.04	15.69	15.57	170	1,540
Total					30,857	141,329

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	49.36	+0.42	49.65	48.80	10,054	28,350
Dec	49.64	+0.34	50.00	49.15	10,547	42,757
Jan	50.02	+0.31	50.30	49.60	3,567	37,334
Feb	49.74	+0.13	50.00	49.50	1,233	19,623
Mar	48.84	+0.03	49.20	48.70	524	7,305
Apr	47.69	-0.12	47.80	47.65	97	3,858
Total					26,691	169,108

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	149.25	+3.00	149.50	147.00	8,054	36,470
Dec	148.50	+2.50	148.75	147.50	5,262	23,307
Jan	149.50	+2.00	149.75	147.75	1,559	21,150
Feb	149.50	+1.75	149.75	148.25	585	6,151
Mar	149.00	+1.75	149.00	148.25	88	3,662
Apr	148.25	+1.50	148.25	147.00	226	1,433
Total					12,240	100,623

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1.772	+0.009	1.785	1.755	21,538	11,372
Dec	1.803	-0.020	1.828	1.795	7,246	30,215
Jan	1.854	-0.020	1.877	1.850	2,181	24,093
Feb	1.807	-0.018	1.825	1.805	729	13,084
Mar	1.754	-0.018	1.770	1.753	786	9,772
Apr	1.696	-0.018	1.705	1.700	400	6,210
Total					33,988	136,822

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	49.87	+0.08	50.50	49.50	10,030	16,369
Dec	49.31	-0.05	49.90	49.05	6,181	21,405
Jan	49.41	-0.05	49.95	49.30	1,886	9,857
Feb	49.83	-0.05	50.25	49.70	227	3,549
Mar	50.00	-0.13	50.35	50.10	25	2,034
Apr	52.50	-0.23	52.60	52.60	97	3,040
Total					18,496	59,816

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	121.15	-0.70	121.50	120.90	51	917
Jan	123.55	-0.70	123.95	123.35	152	2,152
Mar	125.55	-0.70	125.75	125.35	253	1,586
May	127.50	-0.75	127.80	127.35	276	2,183
Jul	129.45	-0.30	129.45	129.45	15	74
Sep	111.00	-0.25	-	-	-	21
Total					761	7,019

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	493.00	-10	502.50	491.00	10,745	57,480
Mar	504.00	-7.25	509.75	503.00	4,926	30,775
May	474.00	-3.5	476.50	473.50	508	3,593
Jul	430.25	-2.25	432.00	428.50	1,344	13,059
Sep	431.25	-1.75	433.50	430.50	392	1,866
Dec	440.25	-1.75	441.50	438.50	77	636
Total					17,694	107,420

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	329.50	-0.5	331.50	328.25	42,034	205,454
Mar	335.25	-0.25	337.25	334.00	21,837	174,505
May	335.00	-	337.25	333.75	2,845	29,435
Jul	331.25	-	334.00	330.25	4,363	44,044
Sep	296.50	+0.75	296.75	285.00	194	6,303
Dec	278.50	+0.5	279.25	277.75	1,910	20,859
Total					73,207	481,181

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	110.65	-1.10	110.70	110.70	5	509
Jan	114.15	-0.80	114.35	114.20	84	808
Mar	116.50	-0.75	116.35	116.25	75	646
May	119.25	-	-	-	-	201
Sep	107.75	-	-	-	-	-
Nov	110.00	-1.00	-	-	-	-
Total					164	2,165

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	669.25	+1.5	672.50	664.50	30,638	57,259
Jan	679.50	+1.25	683.25	675.25	15,516	57,464
Mar	689.25	+1.75	692.25	684.00	5,891	28,981
May	693.50	+1.25	697.00	689.00	1,716	10,015
Jul	697.00	+1	700.50	693.00	1,108	11,720
Aug	694.75	+1.75	696.50	692.00	12	201
Total					58,079	177,858

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	26.59	+0.01	26.74	26.51	5,864	34,890
Jan	26.73	+0.02	26.88	26.66	1,850	12,301
Mar	26.97	+0.06	27.12	26.89	775	9,832
May	27.20	+0.08	27.30	27.07	607	5,978
Jul	27.32	+0.08	27.45	27.28	481	3,807
Aug	27.35	+0.09	27.45	27.32	20	750
Total					9,686	68,337

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	207.9	+0.5	208.6	206.1	12,287	50,219
Jan	208.8	+0.8	209.4	207.0	3,873	15,391
Mar	209.8	+0.8	210.5	207.9	2,897	13,391
May	209.1	+0.8	209.8	207.4	1,067	5,381
Jul	209.9	+0.9	210.2	208.3	1,507	5,396
Aug	208.2	-	210.0	208.5	344	551
Total					22,147	91,392

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	184.0	-	-	-	-	3
Mar	280.0	-	-	-	-	-
Apr	271.5	+0.5	273.5	272.5	10	1,112
May	312.5	-	-	-	-	6
Jun	380.5	-	-	-	-	-
Total					10	1,121

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1570	-23	-	-	-	491
Nov	1510	-34	1525	1500	62	586
Dec	1493	-41	1505	1490	132	259
Jan	1480	-65	1535	1475	88	1,209
Apr	1480	-60	1535	1480	69	1,084
Jul	1370	-50	1400	1370	50	316
Total					401	4,042

	Close	Prev
BFI	1623	1658

FUTURES DATA
All futures data supplied by CMS.

Minor Metals
European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). **Antimony:** 99.6%, $ per tonne, 3,200-3,400 (3,600-3,900). **Bismuth:** min. 99.99%, tonne lots 4.00-4.20 (4.00-4.10). **Cadmium:** min. 99.95%, 200-210 (205-210) cents a pound. **Cobalt:** MB free market, 99.8%, 29.95-30.30 (29.70-30.20); 99.3%, 26.60-26.70 (26.10-26.60). **Mercury:** min. 99.99%, $ per 76 lb flask, 145-165. **Molybdenum:** drummed molybdic oxide, 4.45-4.80. **Selenium:** min 99.5%, 3.80-4.50. **Tungsten ore:** standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 62-70. **Vanadium:** min. 98%, cif, 3.00-3.10. **Uranium:** Nuexco exchange value, 9.50.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	921	+4	925	912	1,197	21,505
Mar	951	+8	955	944	2,525	32,517
May	968	+4	974	962	335	16,172
Jul	984	+2	987	984	40	4,512
Sep	1002	+4	1004	1002	50	21,823
Dec	1019	+3	1020	1018	7	6,075
Total					5,228	111,435

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1316	+7	1335	1315	3,463	25,454
Mar	1350	+6	1368	1349	1,954	21,946
May	1371	+6	1388	1375	557	8,979
Jul	1393	+6	1408	1400	1	3,434
Sep	1417	+7	1424	1416	265	6,187
Dec	1444	+7	-	-	350	6,508
Total					6,590	72,623

■ COCOA (ICCO) (SDR's/tonne)

Oct 23	Price	Prev. day
Daily	939.10	942.20

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	2419	-4	2475	2390	2,123	6,514
Jan	2351	-22	2415	2335	1,999	11,222
Mar	2306	-22	2361	2285	430	5,420
May	2241	-32	2305	2235	113	2,739
Jul	2203	-30	2265	2265	2	433
Sep	2173	-17	-	-	-	264
Total					4,667	26,592

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	124.60	-1.75	128.45	123.00	4,136	14,667
Mar	122.45	-1.55	126.00	120.80	1,173	9,313
May	120.70	-2.10	124.75	121.25	264	2,540
Jul	121.70	-1.80	121.70	119.75	14	509
Sep	122.35	-0.65	-	-	6	312
Dec	122.35	-0.15	121.00	121.00	11	56
Total					5,583	27,408

■ COFFEE (ICO) (US cents/pound)

Oct 23	Price	Prev. day
Comp. daily	123.14	121.55
15 day average	119.85	119.67

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	13.25	-	-	-	-	-
Mar	10.90	-	-	-	-	-
May	11.95	-	-	-	-	-
Jul	11.95	-	-	-	-	-
Total					-	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	348.5	+2.4	349.0	346.0	720	7,608
Mar	333.9	+4.2	335.3	330.6	887	13,658
May	327.7	+2.6	328.3	325.3	432	4,353
Aug	324.3	+2.0	325.8	322.6	227	2,037
Oct	293.9	+1.7	296.2	291.8	138	2,478
Dec	291.2	+1.8	-	-	-	718
Total					2,404	30,994

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.94	+0.26	11.08	10.71	3,718	69,310
May	10.80	+0.21	10.88	10.62	412	19,042
Jul	10.64	+0.17	10.65	10.48	230	13,116
Oct	10.59	+0.15	10.68	10.45	251	14,029
Mar	10.52	+0.13	10.57	10.41	185	7,750
May	10.37	+0.07	10.37	10.30	-	10
Total					4,776	123,257

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	82.55	-1.20	83.70	82.50	4,285	24,887
Mar	82.60	-1.23	83.60	82.35	1,822	16,846
May	83.00	-1.11	83.80	82.90	193	7,523
Jul	83.00	-1.11	83.40	83.00	369	5,531
Oct	78.50	-0.53	78.80	78.40	4	1,325
Dec	75.60	-0.45	75.80	75.55	54	6,246
Total					6,727	63,376

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	119.45	-0.05	119.60	117.85	1,628	4,784
Jan	120.90	-0.55	121.70	119.60	1,805	13,740
Mar	123.40	-0.30	123.90	122.55	58	2,704
May	125.50	-0.30	126.40	125.00	34	1,333
Jul	127.75	-0.30	-	-	6	533
Sep	129.50	-0.30	129.00	129.00	20	338
Total					3,541	23,732

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Oct 24	Oct 23	month ago	year ago
2160.4	2091.9	2117.2	2083.4

■ CRB Futures (Base: 1967=100)

Oct 23	Oct 20	month ago	year ago
241.73	242.31	-	-

■ GSCI Spot (Base: 1970=100)

Oct 23	Oct 20	month ago	year ago
180.65	180.63	180.65	175.30

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	66.800	+1.150	66.900	65.600	1,198	1,157
Dec	67.525	+0.175	67.650	67.200	7,329	30,196
Feb	66.775	+0.125	66.850	66.475	1,936	15,422
Apr	67.125	+0.075	67.200	66.900	803	9,188
Jun	63.250	-	63.400	63.175	655	4,015
Aug	62.025	-0.025	62.150	61.900	184	1,661
Total					12,115	62,148

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	44.825	-0.025	45.250	44.000	1,297	701
Dec	44.800	+0.250	44.925	44.350	3,892	13,031
Feb	47.125	-0.050	47.250	46.700	1,517	7,501
Apr	46.900	+0.075	46.950	46.550	313	2,710
Jun	51.950	-0.125	52.075	51.650	246	3,077
Jul	51.850	-0.175	51.850	51.600	137	1,460
Total					7,817	29,464

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	61.775	+0.875	62.000	60.200	2,044	5,837
Mar	61.600	+1.000	61.800	60.000	223	768
May	62.300	+0.900	62.600	60.500	34	209
Jul	63.000	+0.050	63.125	61.450	17	538
Aug	60.000	+0.100	60.800	59.500	9	47
Total					2,327	7,399

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Dec	Feb	Dec	Feb
1650	55	100	49	70
1700	33	76	77	95
1750	19	57	112	124
■ COPPER (Grade A) LME	Dec	Feb	Dec	Feb
2750	70	73	79	122
2800	49	56	108	153
2850	33	41	142	188
■ COFFEE LCE	Jan	Mar	Jan	Mar
1600	752	714	1	-
1650	703	667	2	1
1700	654	621	3	1
■ COCOA LCE	Dec	Mar	Dec	Mar
875	52	92	-	16
900	35	75	1	24
925	21	60	3	34
■ BRENT CRUDE IPE	Dec	Jan	Dec	Jan
1550	59	75	9	30
1600	27	27	21	53
1650	12	27	54	82

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Dec)

		+or-
Dubai	$14.83-4.93z	+0.17
Brent Blend (dated)	$16.02-6.06	+0.19
Brent Blend (Dec)	$16.04-6.06	+0.18
W.T.I. (1pm est)	$17.31-7.33z	+0.235

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$173-175	+2.5
Gas Oil	$151-152	+3
Heavy Fuel Oil	$84-86	
Naphtha	$154-156	+1
Jet fuel	$170-172	
Diesel	$154-157	+3

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

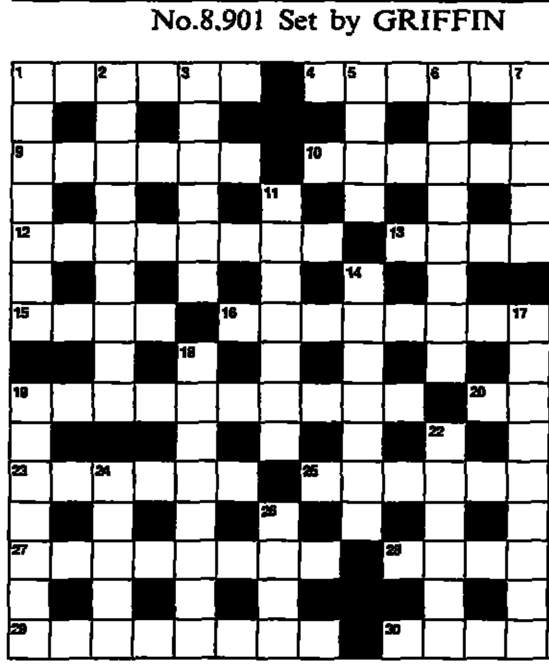
Gold (per troy oz)♣	$382.4075	-0.35
Silver (per troy oz)♣	5837.5c	-4.0
Platinum (per troy oz.)	$410.00	-1.10
Palladium (per troy oz.)	$134.75	
Copper (US prod.)	Unq.	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.36m	-0.02
Tin (New York)	294.5c	+1.0
Cattle (live weight)†	127.30p	-0.46*
Sheep (live weight)†♠	103.52p	+1.19*
Pigs (live weight)†	97.56p	-2.23*
Lon. day sugar (raw)	$308.6	+0.6
Lon. day sugar (wte)	$381.5	-0.9
Barley (Eng. feed)	115.25w	+1.0
Maize (US No3 Yellow)	£105.0w	+1.0
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	98.75p	
Rubber (Dec)♥	98.75p	
Rubber (KL RSS No1)	369.5m	+1.5
Coconut Oil (Phil)§	$725.0u	
Palm Oil (Malay.)§	$630.0	+2.5
Copra (Phil)§	461.0y	
Soyabeans (US)	194.0	
Cotton Outlook'A' index	90.10c	+0.30
Wooltops (64s Super)	447p	+2

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Dec. u Nov/Dec.♥ w Nov. y Nov/Dec. x Oct/Dec London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week † Prices are for previous day.

JOTTER PAD

CROSSWORD

No.8,901 Set by GRIFFIN



Starred clues have no definitions but can all follow 24 down.

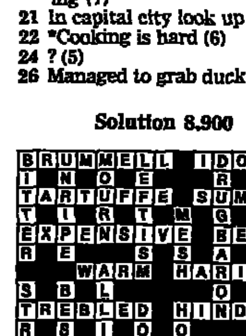
ACROSS

1 *Oil I dropped and left in vehicle (6)
4 *Box teachers are after (8)
9 *Heard why missing guys must have a way in (6)
10 Caught one engineer bending iron guides (8)
12 Modified and hence improved (8)
13 *Motorists' friend in Gateshead (6)
15 *Love having girl around (4)
16 Father and I finish story and redhead becomes kinder (10)
19 Having renovated her stables is puffed out (10)
20 *Western joint (4)
23 For instance, the woman's about 50 stone! (6)
25 Is brown missile let off here? (8)
27 Property inspector very sour if upset (8)
28 Refuse to get turned on by better half (6)
29 Man in street to obtain small 24 (8)
30 For right hospital does turn after island (6)

DOWN

1 It leaves city gents replacing swans (7)
2 Hard look at any going around being disgusting (9)
3 Retreat inside craft that's burning (6)
5 *Caught removing seat (4)
6 They manage 24 with 13 airline employees (8)
7 I grumble but back her (5)
8 Set off to find Roy's 24 (7)
11 Sleepily but cautiously embracing sweetheart (7)
14 Carry on when salesman returns sister's lost ruler (7)
17 Restrained. I scramble behind it (9)
18 Light ale is brewed around that place (8)
19 *Supporter passes father leaving (7)
21 In capital city look up star (7)
22 *Cooking is hard (6)
24 ? (5)
26 Managed to grab duck 24 (4)

Solution 8,900



INTERNATIONAL CAPITAL MARKETS

Statement by Fed official lifts Treasuries

By Lisa Bransten in New York and James Harding in London

US Treasury prices yesterday recovered some of the losses made on Monday as traders reacted to a statement from a Federal Reserve official who said he favoured lower short-term interest rates.

Near midday the benchmark 30-year Treasury was $\frac{5}{32}$ higher at 106⅞ to yield 6.361 per cent. At the short end of the maturity spectrum, the two-year note was up $\frac{1}{16}$ at 100$\frac{1}{32}$, yielding 5.713 per cent.

Mr Alan Blinder, vice-chairman of the Fed, said a soft landing seemed probable with the Fed funds target rate at the current level of 5.75 per cent. But he added that he might support lower interest rates after seeing a final budget-cutting package from Congress.

His comments helped the market move up from early lows, in spite of the afternoon auction of $17.75bn in two-year notes scheduled for mid-afternoon yesterday.

Often the market declines ahead of an auction, as dealers prepare for the new supply and drive down prices to make yields more attractive to their clients. Today, the Treasury is to auction $11.5bn in five-year notes.

The dollar also reversed course yesterday and offered some support to bonds by rising against the D-Mark and the yen.

In early trading, the US currency was changing hands at DM1.3872 and Y100.08 compared with DM1.3865 and Y99.85 late on Monday.

■ The sense in both the US and the UK that if interest rates move at all in the next few months, they are more likely to go down, sustained UK gilts as well as lifting US Treasuries. In London, futures were firm after a downcast industrial trends survey from the Confederation of British Industry seemed to extinguish any lingering fears of growing inflationary pressures.

The high-yielding markets, notably Italy, clawed back a little of their losses from the previous day, as the Italian lira firmed modestly against the D-Mark.

GOVERNMENT BONDS

After London closed, European peripheral currencies were further underpinned by comments from Mr Hans Tietmeyer, Bundesbank president, who said that recent foreign exchange movements had been exaggerated and that Germany would consider "sensible international co-operation".

■ In the UK, the CBI's third-quarter industrial trends survey showed a substantial fall in business optimism, touching both exporters and domestic producers, who reported falling prices.

Mr Simon Briscoe, UK economist at Nikko, said: "The Bank of England will be hard-pressed to whip up inflation worries after this survey. The case has now been made for policy easing over the next year. This is a perfect background for the gilt auction."

Some analysts argued that gilts would have risen further had there not been residual anxiety ahead of today's Treasury auction of £3bn of 20-year gilts.

The assumption yesterday, however, was that there was little prospect of a repeat of last month's auction when the Bank failed to find enough buyers.

"The market has been nervous about the auction, but at this sort of level gilts are quite attractive and the market is assuming they will sell all the stock," one analyst said.

On Liffe, the December long gilts future closed up $\frac{1}{16}$ at 104$\frac{9}{32}$.

■ Italian bonds also fared better than they had on Monday, but analysts, who remained ultimately bearish, put this down to profit-taking and expect the yield spread over bunds still to widen further from yesterday's closing level of 585 basis points.

Although a very modest improvement in the strength of the lira fed through to the BTP market, investors remained nervous ahead of tomorrow's motion of no-confidence in the government of Mr Lamberto Dini.

In late London trading the December Liffe contract was up 0.51 at 99.45.

S African broker for SBC Warburg

By Antonia Sharpe

SBC Warburg, the investment banking arm of Swiss Bank Corporation, is to buy JD Anderson & Co (JDA), a firm of South African stockbrokers and a member of the Johannesburg Stock Exchange.

The acquisition, due to be completed on November 8, comes two months after the termination of SBC Warburg's relationship with Ivor Jones, Roy & Co (IJR), South Africa's leading stockbroker.

S.G. Warburg, which SBC took over earlier this year, had gained exclusive rights in May 1994 to distribute IJR's research on South African companies. It had also agreed to take a large stake in IJR.

However, in August, IJR told SBC Warburg it did not want it to assume management control and ended the relationship. Shortly afterwards, IJR began talks with Deutsche Morgan Grenfell, the investment banking arm of Deutsche Bank.

SBC Warburg declined to say how much it had paid for JDA, but analysts said it could not have been more than $10m. Although JDA was well-regarded in South Africa, it was not in the same league as IJR or Martin & Co, which has a joint venture with Robert Fleming, the UK investment bank, they added.

SBC Warburg said JDA would be merged into its worldwide securities activities and trade under the SBC Warburg name. SBC Warburg will have 100 people globally dedicated to South Africa, of which 80 will be in Johannesburg.

● Old Mutual, South Africa's biggest life assurer and mutual fund manager, has launched an open-ended fund which will offer international institutions access to the South African equity market.

Nordbanken stake fetches SKr5.9bn

By Christopher Brown-Humes in Stockholm

The Swedish government yesterday received its biggest pay-back since the country's banking crisis when it announced that it had successfully sold a 30 per cent stake in Nordbanken for SKr5.9bn, the top end of its pricing range.

INTERNATIONAL EQUITY ISSUES

The offer to international and domestic investors was heavily oversubscribed, helped by the bank's sharp profits recovery, attractive yield and the downward trend in Sweden's long-term interest rates. The sale values the bank, the country's biggest by market share, at SKr19.8bn ($2.96bn).

Nordbanken was the biggest casualty of Sweden's banking crisis and one of the largest recipients of a SKr65bn state support package designed to keep the banking system afloat.

The bank collapsed in 1992 and more than SKr60bn worth of its sour loans, mainly linked to real estate, were hived off into a separate "bad bank" called Securum.

Nordbanken was later merged with Gota Bank, the other big casualty of the crisis, before staging a recovery that brought a SKr4.8bn operating profit last year.

The sale is the first step in a government strategy to privatise Nordbanken fully, and part of a plan to recoup at least half of the SKr65bn overall bail-out package. The next stage of the sell-off cannot take place for at least six months.

International investors were allotted 50 per cent of the 64.5m shares on offer for SKr92 a share – the top of the SKr77 to SKr92 pricing range. A further 25 per cent was sold to Swedish institutions, and the remainder to Swedish individuals at a discounted price of SKr85 a share.

The shares began trading at SKr95 a share on Seaq International in London yesterday, reaching a high of SKr99.5 before settling back to trade at SKr95 to SKr96.

Trading on the Stockholm Stock Exchange will begin on November 2. CS First Boston was the global co-ordinator for the transaction.

Coca-Cola deal taps strong Swiss retail demand

By Richard Lapper and Conner Middelmann

A rare issue by Coca-Cola and further evidence of strong retail demand from Switzerland were the highlights in the eurobond markets yesterday.

INTERNATIONAL BONDS

The $250m five-year deal for Coca-Cola was the company's first venture into the dollar sector for 10 years and was generally acclaimed by the market to have been a success.

Priced to yield 18 basis points over the equivalent US Treasury, the spread narrowed marginally when the bonds were freed to trade, said syndicate managers at book-runner SBC Warburg.

Some 90 per cent of the paper was placed with Swiss retail investors, for whom the issuer's rarity value proved to be an attraction.

"The issue seems to have worked well. We have had no trouble placing our commitment," said one syndicate member. "Pricing was on the button," added another.

The $1bn five-year global issue by Ford Motor Credit Co will be priced tomorrow. Market expectations are for pricing to be at the narrower end of a spread of 52 to 55 basis points over Treasuries. Book-runner Goldman Sachs said 45 per cent of the paper had been placed outside the US.

Pemex, the Mexican state-owned oil company, provided further evidence of increasing investor appetite for Mexican paper with its SFr150m two-year issue via SBC Warburg. The paper was priced at 320 basis points over Swiss franc Libor and some 95 per cent of the paper was placed with Swiss retail accounts.

It is understood that the proceeds were swapped into fixed-rate dollars, giving Pemex a dollar funding cost of some 350 basis points over Treasuries.

By contrast, Nafinsa, the state-owned credit and development agency, achieved funding at just under 400 basis points over Treasuries when it swapped the proceeds of its three-year Swiss franc deal two months ago.

The European Investment Bank's long-awaited DM2bn offering of seven-year bonds is set to be launched today at a yield spread of six basis points over the corresponding German government bond.

This will be the EIB's largest and most tightly priced offering in the D-Mark market, said a syndicate official at one of the joint leads, CS First Boston and Deutsche Morgan Grenfell.

Three weeks ago, the World Bank issued DM3bn of seven-year bonds priced at nine basis points over bunds. That spread has narrowed and stood yesterday at around five basis points.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Ford Motor Credit Co.	1bn	(a)#	(a)R	Nov.2000	0.35R	(a)(WI 5yr)	Goldman Sachs & Co.
Coca-Cola Co.	250	6.00	99.191R	Nov.2000	0.275R	+18(WI 5yr)	SBC Warburg
Unibanco	75	10.00#	99.67R	Nov.1997	1.00R	+445(5¾%-97)	Chemical Investment Bank
Pokka Corp.(b)ϕ	70	2.75	100.00	Nov.1999	2.25	-	Nomura International
Banco Citibank	50	8.75#	100.00	Oct.1997	undiscl.	+303(WI 2yr)	Citibank International
SWISS FRANCS							
Asfinag	300	4.125	102.80	Nov.2003	2.625	-	UBS
Pemex	150	6.00	102.25	Nov.1997	1.50	-	SBC Warburg
Misawa Homes(c)ϕ*	140	1.00	100.00	Nov.1999	1.625	-	Credit Suisse
STERLING							
Midland Bank	200	9.00	99.90R	Nov.2005	0.45R	+62(8½%-05)	HSBC Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ϕWith equity warrants. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today at 52-55bp over Treasuries. b) Fixing: 31/10/95. c) Fixing: 26/10/95. Refixing clause effective Nov.96, 97 & 98; max 30% total.

Gucci trades at premium

By Alice Rawsthorn

Shares in Gucci, the Italian fashion house, rose to an immediate premium over their $22 flotation price on their first day of trading in New York and Amsterdam yesterday, trading in New York at mid-session at $26¾.

The Gucci share issue was heavily oversubscribed in North America and Europe. Investcorp, the Bahrain-based investment group which took control of Gucci in 1993, had intended to sell 16m shares, 30 per cent of the company's equity, priced at $19 to $22.

Demand for the shares was so high that Investcorp last week announced it was increasing the number of shares on sale by 8.5m to 24.5m.

It also gave the underwriters an option to take an additional 3.67m shares. Even so, the US tranche of the 24.5m share offer was eight times subscribed and the international tranche was 16 times subscribed.

Investcorp, advised by Morgan Stanley, announced on Monday that the price of the shares would be $22, at the upper end of its initial range.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	93.2000	-	8.54	8.30	8.62
Austria		6.875	06/05	99.2500	+0.050	6.98	7.00	6.83
Belgium		6.500	03/05	96.0500	+0.100	7.08	7.08	6.92
Canada *		8.750	12/05	105.4000	+0.550	7.96	7.57	8.04
Denmark		7.000	12/04	94.1400	+0.180	7.92	7.87	7.64
France	BTAN	7.750	04/00	103.3750	+0.180	6.84	6.86	6.53
	OAT	7.750	10/05	101.5000	+0.300	7.53	7.56	7.25
Germany Bund		6.500	10/05	99.9500	+0.010	6.51	6.57	6.48
Ireland		6.250	10/04	87.6500	+0.050	8.25	8.23	8.01
Italy		10.500	04/05	91.5100	+0.310	12.03†	11.60	10.85
Japan	No 129	6.400	03/00	119.7850	-0.180	1.58	1.50	1.70
	No 174	4.600	09/04	112.5700	-0.160	2.83	2.71	2.83
Netherlands		7.000	06/05	102.8300	+0.010	6.59	6.62	6.50
Portugal		11.875	02/05	103.0600	+0.050	11.30	11.21	10.95
Spain		10.000	02/05	94.2200	+0.210	10.98	10.88	10.53
Sweden		6.000	02/05	80.3300	+0.560	9.24	9.42	9.27
UK Gilts		8.000	12/00	101-14	+2/32	7.65	7.63	7.26
		8.500	12/05	101-29	-	8.21	8.15	7.76
		9.000	10/08	105-12	-1/32	8.31	8.25	7.85
US Treasury *		6.500	08/05	103-10	+6/32	6.05	5.98	6.10
		6.875	08/25	106-24	+8/32	6.37	6.31	6.46
ECU (French Govt)		7.500	04/05	98.2700	+0.170	7.75	7.78	7.52

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.40	Two year	5.71
Prime rate	8¾	Two month	5.46	Three year	5.77
Broker loan rate	7½	Three month	5.39	Five year	5.88
Fed.funds	5¾	Six month	5.57	10-year	6.04
Fed.funds at intervention	-	One year	5.62	30-year	6.36

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	115.06	115.18	+0.24	115.24	115.06	80,797	107,065
Mar	114.68	114.76	+0.24	114.78	114.66	908	5,706
Jun	114.66	114.78	+0.34	114.88	114.66	198	1,724

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
114	-	1.60	-	0.03	0.42	1.22
115	0.38	0.94	1.38	0.17	0.77	1.67
116	0.02	0.47	0.95	-	1.26	2.17
117	0.01	0.19	0.64	-	-	-
118	-	0.06	0.35	-	-	-

Est. vol. total, Calls 18,895 Puts 24,803. Previous day's open int., Calls 145,836 Puts 163,373.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.97	95.99	+0.02	96.12	95.95	78457	197300
Mar	95.45	95.40	+0.02	95.46	95.40	428	5021

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
9550	0.49	0.85	0.72	1.08	0	0.36	0.82	1.18
9600	0	0.55	0.51	0.85	0.01	0.56	1.11	1.45
9650	0	0.33	0.35	0.66	0.51	0.84	1.45	1.76

Est. vol. total, Calls 15379 Puts 17363. Previous day's open int., Calls 215184 Puts 184711

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.15	99.29	+0.35	99.62	98.95	34727	50934
Mar	99.05	98.99	+0.35	99.05	98.90	104	698

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
9900	1.50	2.50	1.21	2.51
9950	1.24	2.26	1.45	2.77
10000	1.00	2.04	1.71	3.05

Est. vol. total, Calls 4060 Puts 5089. Previous day's open int., Calls 47632 Puts 44317

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	88.07	88.22	+0.21	88.36	88.02	33.599	30,608
Mar	88.00	87.84	+0.16	88.00	58.00	25	19

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	104-25	104-25	+0-02	105-01	104-22	40548	103839
Mar	-	104-07	+0-02	-	-	0	360

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
104	0-50	1-24	1-24	2-00	0	0-38	1-10	1-50
105	0	0-53	0-58	1-31	0-14	1-03	1-44	2-17
106	0	0-28	0-36	1-06	1-14	1-42	2-22	2-56

Est. vol. total, Calls 1971 Puts 2251. Previous day's open int., Calls 41198 Puts 32945

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	86.68	86.66	+0.16	86.70	86.60	1,571	8,982

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	116-12	116-25	+0-10	116-27	116-06	190,621	387,532
Mar	115-31	116-13	+0-09	116-16	115-27	946	25,593
Jun	115-14	115-31	+0-02	115-31	115-14	47	4,487

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	120.40	-	-	120.50	120.14	3069	0
Mar	119.38	-	-	119.38	119.05	440	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Oct 24	Day's change %	Mon Oct 23	Accrued interest	xd adj. ytd		Low coupon yield Oct 24	Low Oct 23	Low Yr. ago	Medium coupon yield Oct 24	Medium Oct 23	Medium Yr. ago	High coupon yield Oct 24	High Oct 23	High Yr. ago
1 Up to 5 years (22)	120.52	-0.02	120.55	1.18	9.72	5 yrs	7.73	7.72	8.76	7.74	7.72	8.81	7.83	7.81	8.97
2 5-15 years (21)	143.53	-0.03	143.57	1.85	10.32	15 yrs	8.34	8.32	8.70	8.37	8.36	8.84	8.44	8.44	9.07
3 Over 15 years (9)	158.22	-0.09	158.37	2.59	10.45	20 yrs	8.38	8.37	8.66	8.41	8.40	8.84	8.46	8.96	
4 Irredeemables (6)	182.00	+0.10	181.81	4.39	8.83	Irred.†	8.43	8.43	8.71						
5 All stocks (58)	139.34	-0.04	139.39	1.76	10.21										

Index-linked							Inflation 5% Oct 24	Oct 23	Yr. ago	Inflation 10% Oct 24	Oct 23	Yr. ago
6 Up to 5 years (1)	192.74	+0.01	192.72	-0.05	8.37	Up to 5 yrs	3.31	3.30	3.94	2.15	2.14	2.75
7 Over 5 years (11)	183.92	+0.02	183.88	0.75	4.45	Over 5 yrs	3.74	3.74	3.88	3.54	3.54	3.68
8 All stocks (12)	183.99	+0.02	183.96	0.73	4.54							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Oct 24	Oct 23	Oct 20	Oct 19	Oct 18	Yr ago	High*	Low*
Govt. Secs. (UK)	92.57	92.67	92.75	92.91	92.93	90.40	95.51	90.22
Fixed interest	110.84	110.88	111.35	111.20	111.09	107.46	114.86	108.77

GILT EDGED ACTIVITY INDICES

	Oct 23	Oct 20	Oct 19	Oct 18	Oct 17
Gilt Edged bargains	101.8	78.3	83.1	88.8	96.6
5-day average	89.7	87.0	88.8	88.4	86.8

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on October 24

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

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CURRENCIES AND MONEY

MARKETS REPORT

Tietmeyer signals dollar will not be abandoned

By Philip Gawith

Mr Hans Tietmeyer, president of the Bundesbank, yesterday injected some late life into otherwise quiet foreign exchanges when he raised the prospect of renewed central bank intervention.

Although not mentioned by name, the markets took this to be a reference to the dollar, which immediately gained 30 basis points against the D-Mark. Speaking at the 100th anniversary celebrations of DG Bank in Frankfurt, Mr Tietmeyer said: "We are willing to participate in sensible international co-operation in the future. Benign neglect was never our policy."

The dollar was trading at DM1.3950 after Mr Tietmeyer's comments, having earlier closed in London at DM1.387. Against the yen, it had risen to Y100.4 from the earlier close of Y100.175.

The dollar was slightly firmer even before Mr Tietmeyer spoke, and with the D-Mark rally temporarily halted, this allowed some breathing space to European crosses that had been under pressure. The French franc was the main beneficiary, closing at FFr3.513, from FFr3.527, against the D-Mark.

The lira closed slightly firmer at L1,165, from L1,167, but opinion remains very gloomy about the outcome of the no-confidence vote in the Dini government, with the vote due tomorrow.

The Canadian dollar had a more stable day, finishing at C$1.3703, from C$1.3683, against the US dollar, but nerves remain on edge about the outcome of next Monday's referendum on whether Quebec should separate from Canada.

■ **Pound in New York**

Oct 24	Latest	Prev close
£ spot	1.5795	1.5790
1 mth	1.5784	1.5778
3 mth	1.5764	1.5758
1 yr	1.5647	1.5642

Sterling had a quiet day, closing at DM2.1936, from DM2.1899, and at $1.5815 from $1.581.

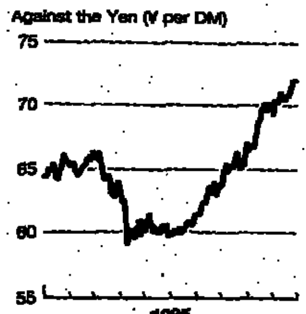
■ The impact of Mr Tietmeyer's comments was bolstered by simultaneous comments from Mr Edgar Meister, a Bundesbank directorate member, about the German repo rate. Commenting on the fact that the repo had recently become stuck at 4.03 per cent in the weekly bidding auctions, he noted that "In the end, banks' bidding behaviour also help determine how far the repo rate declines."

In the past, such comments have often been taken by the market as a signal to bid the repo rate down. Confirmation of further downward momentum in German interest rates is one factor likely to lend some support to the dollar.

Mr Tony Norfield, UK treasury economist at ABN AMRO in London, said with the market still fairly bearish on the dollar, while US budget negotiations remained unresolved, the climate for intervention to support the dollar was probably not right.

D-Mark

Against the Yen (¥ per DM)



Source: FT Extel

Even the threat of intervention, however, is probably sufficient to keep the market in check. The backdrop to Mr Tietmeyer's comments is that the dollar is close to historic lows of SFr1.1110 against the Swiss franc, and DM1.3450 against the D-Mark, although much firmer against the yen and on a trade weighted basis.

"This is damage limitation on the part of the Bundesbank as regards the dollar, but the overriding issue remains Europe," said Mr Norfield. He said the Bundesbank faced the paradox that while it probably wanted a stronger dollar – after all, it bought the dollar publicly at DM1.46 on August 15 – the effect of its efforts to stress the need for a strict approach to EMU, was to bolster the D-Mark.

Mr Norfield said that if the Bundesbank was forced to choose between a strong dollar, or tying up with the lira, it would choose the latter.

■ The Franco-German summit today has the potential to bolster the French franc, if it can produce a plausible bilateral expression of commitment in favour of the Franc's participation in EMU. More important for the markets, however, will be the outcome of the no-confidence vote in Italy.

Mr Paul Lambert, currency analyst at UBS in London, said that if Mr Dini was defeated, making an early election likely, the lira would come under further pressure. "You could not rule out a move to L1,200 and beyond," he said.

Mr Peter Luxton, analyst at MMS in London, said markets had become too sanguine over the summer about Italy. Recent events had served as a reminder "that politics is still a very big risk in Italy."

■ The Bank of England provided £914m assistance towards clearing a money market shortage of £1.05bn.

■ **OTHER CURRENCIES**

Oct 24	£	$
Czech Rp	40.9795 - 41.0292	25.9200 - 25.9350
Hungary	205.657 - 205.866	130.080 - 130.130
Iran	4746.00 - 4743.00	3000.00 - 3000.00
Kuwait	0.4734 - 0.4744	0.2994 - 0.2999
Poland	3.8434 - 3.8498	2.4310 - 2.4335
Russia	7128.49 - 7127.15	4506.00 - 4508.00
U.A.E.	5.8067 - 5.8110	3.6728 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Oct 24		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.4380	+0.0271	287 - 473	15.4821	15.3698	15.4078	2.4	15.349	2.3	-	-	107.8
Belgium	(BFr)	45.1250	+0.0823	917 - 582	45.2760	45.0320	45.03	2.5	44.84	2.5	44.105	2.3	110.7
Denmark	(DKr)	8.5267	+0.0035	216 - 317	8.5527	8.5078	8.5191	1.1	8.5025	1.1	8.44	1.0	110.8
Finland	(FM)	6.6325	-0.0011	264 - 385	6.6830	6.5900	6.6281	0.8	6.62	0.8	-	-	88.5
France	(FFr)	7.7078	-0.017	037 - 118	7.7396	7.7029	7.7147	-1.1	7.7203	-0.6	7.7149	-0.1	109.5
Germany	(DM)	2.1936	+0.0037	924 - 947	2.2013	2.1870	2.1885	2.8	2.1791	2.7	2.1381	2.5	113.8
Greece	(Dr)	363.429	+0.431	219 - 639	364.544	362.500	-	-	-	-	-	-	67.5
Ireland	(I£)	0.9739	-0.0014	730 - 748	0.9757	0.9729	0.9731	1.0	0.9718	0.9	0.9686	0.5	97.3
Italy	(L)	2556.42	+0.81	442 - 841	2561.51	2548.50	2563.67	-3.4	2578.57	-3.5	2646.72	-3.5	68.4
Luxembourg	(LFr)	45.1250	+0.0823	917 - 582	45.2760	45.0320	45.03	2.5	44.84	2.5	44.105	2.3	110.7
Netherlands	(Fl)	2.4575	+0.0052	559 - 591	2.4656	2.4504	2.451	3.1	2.4401	2.8	2.3939	2.6	110.7
Norway	(NKr)	9.7358	+0.0071	303 - 412	9.7753	9.6734	9.7234	1.5	9.7015	1.4	9.625	1.1	99.4
Portugal	(Es)	232.291	+0.24	138 - 443	232.957	231.083	232.831	-2.8	234.051	-3.0	-	-	95.7
Spain	(Pta)	190.895	+0.377	764 - 027	191.307	190.384	191.395	-3.1	192.335	-3.0	196.735	-3.1	81.5
Sweden	(SKr)	10.5052	-0.0795	959 - 144	10.5814	10.4842	10.5074	-0.3	10.512	-0.3	10.5353	-0.3	85.2
Switzerland	(SFr)	1.7873	+0.007	859 - 886	1.7919	1.7776	1.7802	4.8	1.7684	4.2	1.7154	4.0	116.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.6
Ecu	-	1.2026	+0.002	017 - 034	1.2052	1.1987	1.2015	1.1	1.1992	1.1	1.1899	1.1	-
SDR†	-	1.04679	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5813	+0.0005	807 - 818	1.5830	1.5759	-	-	-	-	-	-	-
Brazil	(R$)	1.5202	+0.0007	193 - 211	1.5216	1.5144	-	-	-	-	-	-	-
Canada	(C$)	2.1671	+0.0039	660 - 681	2.1830	2.1613	2.1662	0.5	2.166	0.2	2.1711	-0.2	83.2
Mexico	(New Peso)	10.6910	+0.1378	797 - 022	10.7026	10.6596	-	-	-	-	-	-	-
USA	($)	1.5815	+0.0005	810 - 820	1.5832	1.5759	1.5803	0.9	1.5782	0.8	1.5673	0.9	92.6
Pacific/Middle East/Africa													
Australia	(A$)	2.1185	+0.0055	165 - 204	2.1207	2.1152	2.1198	-0.7	2.1227	-0.8	2.1374	-0.9	84.9
Hong Kong	(HK$)	12.2285	+0.005	238 - 331	12.2408	12.1869	12.225	0.3	12.2126	0.5	12.179	0.4	-
India	(Rs)	56.2224	+0.0178	255 - 192	56.3200	55.6930	-	-	-	-	-	-	-
Israel	(Shk)	4.7781	+0.0319	726 - 835	4.7838	4.7380	-	-	-	-	-	-	-
Japan	(Y)	158.427	+0.809	337 - 516	158.520	157.250	157.512	6.9	155.902	6.4	148.977	6.0	142.6
Malaysia	(M$)	3.9889	+0.0118	868 - 909	3.9913	3.9702	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3990	+0.0077	969 - 010	2.4020	2.3961	2.4049	-3.0	2.4142	-2.5	2.4398	-1.7	100.9
Philippines	(Peso)	41.0658	+0.0082	459 - 877	41.1030	40.9890	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9315	+0.0019	294 - 336	5.9373	5.9106	-	-	-	-	-	-	-
Singapore	(S$)	2.2370	+0.0034	355 - 385	2.2402	2.2312	-	-	-	-	-	-	-
South Africa	(R)	5.7477	+0.0019	450 - 503	5.7533	5.7323	-	-	-	-	-	-	-
South Korea	(Won)	1211.03	+0.85	057 - 150	1212.26	1207.04	-	-	-	-	-	-	-
Taiwan	(T$)	42.5859	-0.011	621 - 096	42.6213	42.4884	-	-	-	-	-	-	-
Thailand	(Bt)	39.6324	+0.0125	041 - 607	39.6700	39.4920	-	-	-	-	-	-	-

† Rates for Oct 23. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	9.7618	+0.014	588 - 644	9.8050	9.7470	9.7465	1.9	9.7164	1.9	9.6071	1.6	107.9
Belgium	(BFr)	28.5330	+0.043	210 - 450	28.6900	28.5100	28.492	1.7	28.413	1.7	28.113	1.5	110.2
Denmark	(DKr)	5.3915	+0.0005	900 - 930	5.4180	5.3858	5.3922	-0.2	5.388	0.3	5.3975	-0.1	110.0
Finland	(FM)	4.1938	-0.002	913 - 963	4.2248	4.1749	4.1934	0.1	4.1923	0.1	4.1878	0.1	87.8
France	(FFr)	4.8737	-0.0123	727 - 747	4.9044	4.8720	4.8822	-2.1	4.8922	-1.5	4.9137	-0.8	108.9
Germany	(DM)	1.3870	+0.0019	867 - 873	1.3938	1.3843	1.3848	1.9	1.3804	1.9	1.3619	1.8	113.1
Greece	(Dr)	229.800	+0.2	740 - 860	230.880	229.380	231.525	-9.0	234.725	-8.6	248.2	-8.0	67.0
Ireland	(I£)	1.6239	+0.0029	229 - 249	1.6255	1.6165	1.624	-0.1	1.6241	-0.1	1.6306	-0.4	-
Italy	(L)	1616.45	-	570 - 720	1621.58	1613.16	1623.2	-5.0	1635.25	-4.7	1692.45	-4.7	67.6
Luxembourg	(LFr)	28.5330	+0.043	210 - 450	28.6900	28.5100	28.492	1.7	28.413	1.7	28.113	1.5	110.2
Netherlands	(Fl)	1.5539	+0.0028	534 - 544	1.5615	1.5509	1.5513	2.0	1.5452	2.0	1.5262	1.8	110.0
Norway	(NKr)	6.1560	+0.0025	545 - 575	6.1877	6.1247	6.1522	0.7	6.146	0.6	6.136	0.3	98.7
Portugal	(Es)	146.880	+0.105	830 - 930	147.600	146.150	147.345	-3.8	148.355	-4.0	152.98	-4.2	95.9
Spain	(Pta)	120.705	+0.2	660 - 750	121.230	120.320	121.085	-3.8	121.855	-3.8	125.35	-3.8	81.4
Sweden	(SKr)	6.6426	-0.0524	388 - 463	6.7094	6.6333	6.6601	-3.2	6.6966	-3.3	6.8651	-3.3	83.8
Switzerland	(SFr)	1.1301	+0.004	296 - 306	1.1354	1.1250	1.1265	3.8	1.1204	3.4	1.0926	3.3	118.3
UK	(£)	1.5815	+0.0005	810 - 820	1.5832	1.5759	1.5803	0.9	1.5782	0.8	1.5673	0.9	82.9
Ecu	-	1.3151	-0.0018	146 - 156	1.3179	1.3089	1.3155	-0.4	1.3162	-0.3	1.3185	-0.3	-
SDR†	-	0.66295	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	998 - 999	1.0000	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	0.9613	+0.0002	610 - 615	0.9616	0.9610	-	-	-	-	-	-	-
Canada	(C$)	1.3703	+0.002	700 - 705	1.3790	1.3675	1.3708	-0.4	1.3721	-0.5	1.3823	-0.9	82.4
Mexico	(New Peso)	6.7600	+0.085	550 - 650	6.7650	6.7550	6.7622	-0.4	6.7654	-0.3	6.7703	-0.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	93.4
Pacific/Middle East/Africa													
Australia	(A$)	1.3394	+0.003	387 - 403	1.3422	1.3376	1.3412	-1.6	1.3448	-1.6	1.3645	-1.9	85.8
Hong Kong	(HK$)	7.7322	+0.0007	317 - 327	7.7330	7.7317	7.7337	-0.2	7.7357	-0.2	7.7559	-0.3	-
India	(Rs)	35.5500	-	000 - 000	35.6500	35.3000	35.7	-5.1	36.005	-5.1	37.475	-5.4	-
Israel	(Shk)	3.0212	+0.0192	187 - 237	3.0250	3.0029	-	-	-	-	-	-	-
Japan	(Y)	100.176	+0.48	150 - 200	100.300	99.6500	99.68	5.9	98.76	5.7	94.885	5.3	143.8
Malaysia	(M$)	2.5222	+0.0067	217 - 227	2.5245	2.5160	2.5222	0.0	2.5226	-0.1	2.5302	-0.3	-
New Zealand	(NZ$)	1.5168	+0.0044	161 - 177	1.5205	1.5159	1.5209	-3.2	1.5284	-3.1	1.5531	-2.4	-
Philippines	(Peso)	25.9670	-0.003	620 - 720	25.9720	25.9620	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	+0.0001	504 - 507	3.7508	3.7503	3.7511	-0.2	3.752	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4145	+0.0017	140 - 150	1.4180	1.4138	1.4111	2.9	1.4048	2.6	1.36	2.4	-
South Africa	(R)	3.6343	-	338 - 348	3.6365	3.6328	3.6596	-8.3	3.7098	-8.3	3.9408	-8.4	-
South Korea	(Won)	765.750	+0.3	700 - 800	766.400	765.300	768.75	-4.7	772.25	-3.4	790.75	-3.3	-
Taiwan	(T$)	26.9275	-0.0155	210 - 340	26.9700	26.9200	26.9475	-0.9	26.9875	-0.9	-	-	-
Thailand	(Bt)	25.0600	-	500 - 700	25.0870	25.0480	25.1475	-4.2	24.795	4.2	26.015	-3.8	-

† SDR rate per $ for Oct 23. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 23. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

October 24	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4	4 1/8	4 1/4	4 5/16	4 7/16	8.00	3.50	–
week ago	4 3/16	4 1/8	4 3/16	4 5/16	4 3/8	8.00	3.50	–
France	7 1/8	7 1/2	7 3/16	7 1/8	6 7/8	5.00	–	7.00
week ago	6	7 1/2	6 3/4	6 13/16	6 13/16	5.00	–	7.00
Germany	4 1/16	4 1/16	4 1/16	4 1/16	4 1/16	5.50	3.50	4.03
week ago	4 3/16	4 1/8	4 1/16	4 1/16	4 1/8	5.50	3.50	4.03
Ireland	5 1/4	5 3/4	5 13/16	6	6 3/8	–	–	6.25
week ago	5 5/16	5 3/4	5 13/16	6 1/16	6 3/16	–	–	6.25
Italy	10 3/8	10 5/8	11 1/16	11 1/16	11 3/16	–	9.00	10.99
week ago	10 1/4	10 3/8	10 1/2	10 5/8	10 3/4	–	9.00	10.38
Netherlands	3 13/16	3 13/16	3 7/8	3 15/16	4 1/16	–	3.50	3.70
week ago	3 7/8	3 13/16	3 13/16	3 15/16	4 1/16	–	3.50	3.90
Switzerland	1 13/16	2 1/8	2 3/16	2 3/16	2 1/2	5.00	2.00	–
week ago	1 3/4	2 1/8	2 1/4	2 1/4	2 3/8	5.00	2.00	–
US	5 3/4	5 3/4	5 5/8	5 1/2	5 3/8	–	5.25	–
week ago	5 3/4	5 3/4	5 11/16	5 5/8	5 3/8	–	5.25	–
Japan	3/8	3/8	7/16	9/16	9/16	–	0.50	–
week ago	3/8	1/2	1/2	1/2	17/32	–	0.50	–
■ $ LIBOR FT London								
Interbank Fixing	–	5 3/4	5 5/8	5 9/16	5 1/2	–	–	–
week ago	–	5 3/4	5 5/8	5 5/8	5 9/16	–	–	–
US Dollar CDs	–	5.60	5.61	5.64	5.68	–	–	–
week ago	–	5.60	5.62	5.62	5.62	–	–	–
ECU Linked Ds	–	5 5/8	5 1/2	5 5/8	5 5/8	–	–	–
week ago	–	5 5/8	5 5/8	5 5/8	5 5/8	–	–	–
SDR Linked Ds	–	3 3/4	3 3/4	3 13/16	3 13/16	–	–	–
week ago	–	3 3/4	3 13/16	3 13/16	3 13/16	–	–	–

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 24	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 3/16 - 4 1/16	4 3/16 - 4 1/16	4 1/4 - 4 1/8	4 5/16 - 4 3/16	4 7/16 - 4 5/16	4 1/2 - 4 3/8
Danish Krone	5 1/4 - 5	5 1/2 - 5 1/4	5 3/4 - 5 1/2	5 13/16 - 5 11/16	5 13/16 - 5 11/16	5 15/16 - 5 13/16
D-Mark	4 1/8 - 4	4 5/32 - 4 1/32	4 1/8 - 4	4 1/8 - 4	4 1/8 - 4	4 1/8 - 4
Dutch Guilder	3 7/8 - 3 3/4	3 7/8 - 3 3/4	3 7/8 - 3 13/16	3 15/16 - 3 13/16	4 - 3 13/16	4 1/8 - 4 1/32
French Franc	6 1/4 - 5 7/8	7 3/4 - 7 1/4	7 5/8 - 7 7/16	7 11/16 - 7 7/16	7 13/32 - 7 7/32	6 15/16 - 6 13/16
Portuguese Esc.	8 15/16 - 8 13/16	8 7/8 - 8 3/4	9 1/16 - 8 15/16	9 1/4 - 9 1/8	9 3/8 - 9 1/4	9 5/8 - 9 3/8
Spanish Peseta	9 3/8 - 9 1/4	9 3/8 - 9 1/4	9 7/16 - 9 5/16	9 1/2 - 9 3/8	9 5/8 - 9 1/2	9 13/16 - 9 9/16
Sterling	6 5/8 - 6 3/8	6 5/8 - 6 1/2	6 23/32 - 6 21/32	6 3/4 - 6 11/16	6 25/32 - 6 23/32	6 7/8 - 6 13/16
Swiss Franc	2 - 1 7/8	2 1/16 - 1 15/16	2 1/16 - 1 15/16	2 3/16 - 2 1/16	2 1/4 - 2 1/8	2 1/4 - 2 1/8
Can. Dollar	6 1/4 - 6 1/16	6 7/8 - 6 5/8	7 3/16 - 7 1/16	7 5/16 - 7 3/16	7 5/16 - 7 3/16	7 5/16 - 7 3/16
US Dollar	5 3/4 - 5 1/2	5 13/16 - 5 11/16	5 13/16 - 5 11/16	5 7/8 - 5 11/16	5 23/32 - 5 21/32	5 23/32 - 5 21/32
Italian Lira	10 3/4 - 10 5/8	10 3/4 - 10 5/8	10 13/16 - 10 11/16	11 1/32 - 10 29/32	11 3/32 - 11 1/32	11 3/16 - 11 1/16
Yen	5/8 - 1/16	9/16 - 7/16	9/16 - 7/16	5/8 - 1/2	5/8 - 1/2	3/4 - 1/2
Asian $Sing	2 - 1 3/4	2 5/8 - 2 1/2	2 3/4 - 2 5/8	2 15/16 - 2 13/16	3 - 2 7/8	3 1/8 - 3

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.78	92.80	+0.11	92.87	92.73	42,840	40,429
Mar	93.74	93.72	+0.03	93.82	93.72	7,164	31,413
Jun	94.20	94.20	+0.02	94.27	94.20	2,661	29,654

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.03	96.02	-	96.03	96.01	10740	140395
Mar	96.17	96.15	-0.01	96.18	96.15	11188	154350
Jun	96.06	96.07	+0.01	96.10	96.06	13256	122759
Sep	95.84	95.87	+0.03	95.88	95.84	9478	91844

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	88.77	88.81	+0.08	88.85	88.70	9127	34537
Mar	89.18	89.17	+0.02	89.20	89.12	5037	25835
Jun	89.40	89.41	+0.02	89.45	89.38	1197	13947
Sep	89.53	89.54	+0.05	89.56	89.50	300	7911

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.78	97.81	+0.05	97.82	97.77	3845	21743
Mar	97.87	97.90	+0.04	97.92	97.86	3353	17742
Jun	97.77	97.80	+0.05	97.81	97.77	407	5909
Sep	97.58	97.60	+0.04	97.61	97.58	152	3334

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.15	94.16	+0.03	94.18	94.15	904	8584
Mar	94.40	94.40	+0.02	94.41	94.36	277	3813
Jun	94.41	94.40	+0.01	94.41	94.39	36	2476
Sep	94.28	94.29	+0.02	94.30	94.28	33	1453

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
8875	0.45	0.86	1.08	0.39	0.44	0.42
8900	0.31	0.70	0.91	0.50	0.53	0.50
8925	0.21	0.56	0.76	0.65	0.64	0.60

Est. vol. total, Calls 1000 Puts 450. Previous day's open int., Calls 12568 Puts 6483

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 24		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.89	17.08	4.862	2.158	5664	5.446	21.57	514.7	423.0	23.28	3.960	2.216	4.802	3.505	351.0	2.666
Denmark	(DKr)	52.93	10	9.040	2.573	1.142	2998	2.883	11.42	272.4	223.9	12.33	2.096	1.173	2.541	1.855	185.8	1.411
France	(FFr)	58.55	11.06	10	2.846	1.264	3316	3.189	12.63	301.4	247.7	13.64	2.318	1.297	2.811	2.052	205.5	1.561
Germany	(DM)	20.57	3.887	3.513	1	0.444	1165	1.120	4.438	105.9	87.01	4.790	0.814	0.456	0.988	0.721	72.20	0.548
Ireland	(I£)	46.33	8.755	7.914	2.253	1	2624	2.524	9.996	238.5	196.0	10.79	1.835	1.027	2.225	1.624	162.6	1.235
Italy	(L)	1.766	0.334	0.302	0.086	0.038	100.	0.096	0.381	9.088	7.469	0.411	0.070	0.039	0.085	0.062	6.197	0.047
Netherlands	(Fl)	18.36	3.469	3.136	0.893	0.395	1040	1	3.961	94.51	77.66	4.276	0.727	0.407	0.882	0.644	64.44	0.489
Norway	(NKr)	46.35	8.758	7.917	2.253	1.000	2625	2.525	10	238.6	196.1	10.79	1.835	1.027	2.226	1.625	162.7	1.236
Portugal	(Es)	19.43	3.671	3.318	0.944	0.419	1100	1.058	4.191	100.	82.18	4.524	0.769	0.430	0.933	0.681	68.19	0.518
Spain	(Pta)	23.64	4.467	4.038	1.149	0.510	1339	1.288	5.100	121.7	100.	5.506	0.936	0.524	1.135	0.829	82.98	0.630
Sweden	(SKr)	42.94	8.113	7.334	2.088	0.927	2432	2.339	9.264	221.0	181.6	10	1.700	0.951	2.062	1.505	150.7	1.145
Switzerland	(SFr)	25.25	4.772	4.313	1.228	0.545	1430	1.375	5.448	130.0	106.8	5.881	1	0.560	1.213	0.885	88.64	0.673
UK	(£)	45.13	8.527	7.708	2.194	0.974	2556	2.458	9.736	232.3	190.9	10.51	1.787	1	2.167	1.582	158.4	1.203
Canada	(C$)	20.83	3.935	3.557	1.012	0.449	1180	1.134	4.493	107.2	88.09	4.850	0.825	0.461	1	0.730	73.10	0.555
US	($)	28.53	5.390	4.872	1.387	0.616	1616	1.554	6.154	146.8	120.7	6.643	1.130	0.632	1.370	1	100.1	0.760
Japan	(Y)	28.49	5.383	4.866	1.385	0.615	1614	1.552	6.146	146.7	120.5	6.635	1.128	0.631	1.368	0.999	100.	0.759
Ecu		37.51	7.088	6.407	1.824	0.810	2125	2.043	8.093	193.1	158.7	8.736	1.485	0.831	1.801	1.315	131.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7234	0.7202	-0.0035	0.7241	0.7177	29,236	53,771
Mar	0.7271	0.7235	-0.0035	0.7271	0.7212	392	2,966
Jun	–	0.7266	-0.0036	–	–	110	172

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.0095	1.0043	-0.0059	1.0115	1.0028	13,793	58,045
Mar	1.0215	1.0169	-0.0066	1.0226	1.0161	704	8,084
Jun	–	1.0327	-0.0073	–	1.0333	1	346

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.8920	0.8862	-0.0067	0.8936	0.8832	22,715	34,757
Mar	0.9013	0.8942	-0.0067	0.9013	0.8917	400	1,970
Jun	0.9087	0.9019	-0.0068	0.9087	0.9000	19	402

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.5782	1.5772	+0.0010	1.5814	1.5760	8,298	33,756
Mar	1.5754	1.5736	+0.0010	1.5780	1.5710	3	213
Jun	–	1.5696	+0.0010	1.5740	–	2	10

UK INTEREST RATES

LONDON MONEY RATES

Oct 24	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 1/2 - 6 5/8	6 13/16 - 6 9/16	6 23/32 - 6 5/8	6 13/16 - 6 11/16	6 7/8 - 6 3/4	6 15/16 - 6 13/16
Sterling CDs	-	-	6 21/32 - 6 19/32	6 23/32 - 6 21/32	6 3/4 - 6 11/16	6 25/32 - 6 23/32
Treasury Bills	-	-	6 5/8 - 6 9/16	6 13/16 - 6 17/32	-	-
Bank Bills	-	-	6 5/8 - 6 9/16	6 5/8 - 6 9/16	6 5/8 - 6 9/16	-
Local authority deps.	6 5/8 - 6 1/2	6 9/16 - 6 7/16	6 11/16 - 6 9/16	6 3/4 - 6 5/8	6 13/16 - 6 11/16	6 7/8 - 6 3/4
Discount Market deps	7 1/4 - 6 1/2	6 5/8 - 6 1/2	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5¾	5¾	6	6¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount 6.5715pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 29, 1995. Agreed rate for period Oct 25, 1995 to Nov 25, 1995, Schemes II & III 8.04pc. Reference rate for period Sep 1, 1995 to Sep 29, 1995, Schemes IV & V 6.795pc. Finance House Base Rate 7pc from October 1, 1995

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.24	93.24	+0.01	93.26	93.23	15735	90332
Mar	93.31	93.34	+0.04	93.38	93.30	20369	61816
Jun	93.24	93.25	+0.02	93.32	93.23	16076	43624
Sep	93.06	93.06	+0.02	93.13	93.05	5836	34140
Dec	92.86	92.83	-0.02	92.91	92.83	2571	24492

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9300	0.27	0.49	0.57	0.03	0.15	0.32
9325	0.11	0.33	0.43	0.12	0.24	0.43
9350	0.04	0.20	0.31	0.30	0.38	0.56

Est. vol. total, Calls 7867 Puts 1120. Previous day's open int., Calls 141555 Puts 136554

EMS EUROPEAN CURRENCY UNIT RATES

Oct 24	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.15214	2.08390	+0.00327	-3.17	7.53	24
Belgium	39.3960	38.2880	+0.0396	-2.81	7.13	21
Germany	1.91007	1.86049	+0.00298	-2.60	6.89	26
Austria	13.4383	13.0930	+0.0206	-2.57	6.86	19
Denmark	7.28580	7.23366	+0.00248	-0.72	4.87	5
Spain	162.493	161.778	+0.213	-0.44	4.58	3
Portugal	195.792	197.005	+0.085	0.62	3.48	-4
France	6.40608	6.54385	-0.02575	2.15	1.93	-18
Ireland	0.792214	0.824830	-0.00298	4.12	0.00	-28
NON ERM MEMBERS						
Greece	292.867	308.192	+0.223	5.23	-1.06	-
Italy	2106.15	2163.63	+4.96	2.73	1.35	-
UK	0.786652	0.846944	-0.001583	7.66	-3.29	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
1.540	3.80	4.21	4.68	0.09	0.52	1.06
1.550	2.89	3.46	3.97	0.18	0.77	1.37
1.560	2.11	2.77	3.34	0.38	1.10	1.74
1.570	1.41	2.22	2.77	0.56	1.49	2.17
1.580	0.85	1.71	2.32	1.01	1.98	2.62
1.590	0.46	1.28	1.89	1.82	2.51	3.16

Previous day's vol., Calls 3,800 Puts 20,037. Prev. day's open int., Calls 243,171 Puts 281,429

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.17	94.20	+0.02	94.21	94.16	41,723	380,297
Mar	94.34	94.42	+0.07	94.43	94.33	71,837	372,188
Jun	94.32	94.42	+0.09	94.44	94.30	26,951	253,526

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.76	94.79	+0.01	94.81	94.76	173	11,465
Mar	94.84	94.91	+0.06	94.92	94.84	284	3,960
Jun	94.87	94.93	+0.09	94.93	94.87	5	173

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
9600	0.05	0.10	0.22	0.26	0.04	0.08	0.07	0.11
9625	0.01	0.03	0.08	0.13	0.24	0.26	0.18	0.23
9650	0	0.01	0.02	0.06	0.48	0.49	0.37	0.40

Est. vol. total, Calls 10114 Puts 6822. Previous day's open int., Calls 231642 Puts 226520

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9775	0.12	0.27	0.28	0.08	0.12	0.23
9800	0.03	0.11	0.15	0.22	0.21	0.36
9825	0.01	0.04	0.07	0.45	0.39	0.52

Est. vol. total, Calls 300 Puts 300. Previous day's open int., Calls 4978 Puts 1275

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs.	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	United Bank of Kuwait	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Western Trust	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75		
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	* Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

● Members of London Investment Banking Association
* In administration

CONTRACTS & TENDERS

PETROLEO BRASILEIRO S.A. - PETROBRAS
ANNOUNCEMENT OF DELAY
EDICT NR 101.0.005.095.0

Subject: Seismic Survey Marine 2D and 3D in Brazilian continental shelf.
Delay: We are delaying the reception of the bid to November 14th, 1995, 2pm at same place.
Consultation Acquisition: República do Chile Avenue, 65. 11th Floor, Room 1104 - Down Town, Rio de Janeiro, Brazil.
Edict acquisition price: R$35,00

BIDDING COMMITTEE

LONDON SHARE SERVICE

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	1995 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£31¾	—	£34	£29	2,108	2.6	ϕ
Barlow	♣	£8	—	£8½	£4½	1,589	1.2	29.3
Gold Flds Prop R.		145xd	—	152	118	14.8	7.2	8.6
MK Props.		85	—	95	85	3.45	13.6	–
SASOL	♥	582	—	648	435	3,232	2.5	–
SA Brews		£20¾	—	£20½	£12⅞	5,902	1.7	ϕ
Standard Bank	□	£23½	-⅛	£24⅛	£20¼	2,813	2.0	16.5
Tiger Oats		1080	—	1087	700	1,824	1.4	26.1
Tongaat-Hulett	†h	850	—	850	636	774.7	1.6	25.4

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated seperately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas Incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♧ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish Incorporated non-listed companies
- ∥ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield: p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xt ex capital distribution.

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BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Pembroke Hall, Pembroke, Bermuda

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd

PO Box 246, St Peter Port, Guernsey 01481 723021

[illegible]

Sarasin Funds Mngmt (Guernsey) Ltd

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

GT Asset Management (Ireland) Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

Capital Vision Fund Plc

Chemical Ireland Fund Administrators Ltd

Citi Investment Fund (Ireland)

Citizens Investment Trust Mngt Company

DIT Dresdner Global Strategies Fund

Daiwa Europe Fund Managers Ireland Ltd

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

Mercury Fund Managers IoM Ltd

Quilter Intl Mngt (IoM) Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

John Govett Management (Jersey) Ltd

INVESCO International Limited

Jupiter Tyndall (Jersey) Ltd

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

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LONDON STOCK EXCHANGE

MARKET REPORT

Shares rise modestly ahead of gilt auction

By Philip Coggan, Markets Editor

A return to relative calm on the foreign exchange markets allowed shares in London to recover some of their poise and the FT-SE 100 index ended its three-day losing streak.

But the markets seemed reluctant to move decisively before the result of today's £3bn gilt auction became clear. Throughout the day the Footsie moved only within a narrow 14-point range.

The Confederation of British Industry's quarterly trends survey showed clear signs of a slowdown in the economy, with levels of optimism, output, new orders and exports all falling. But the survey appeared to have little effect on equities, and even gilts, which might have been expected to benefit from news of an economic slowdown, were flat on the day.

"In normal circumstances that CBI survey would have had people saying that interest rates have peaked," said Mr Mark Tinker, UK analyst at broker James Capel. "But the gilt market is nervous ahead of the auction in view of the problems last time."

Mr Michael Saunders, UK economist at Salomon Brothers, said: "The authorities are unlikely to cut base rates in the next month or two. Nevertheless, the case for lower base rates in early 1996 is gathering force. By that stage, the economy is likely to have slowed further, price data will be improving and, we suspect, lead guides, such as business confidence, will remain downbeat."

Wall Street's weakness, with the Dow Jones Industrial Average dropping nearly 40 points on Monday, hardly set a positive tone for the start of trading. Within five minutes of the opening, the Footsie was at its worst for the day, down 4.7 points at 3,526.8.

But with the dollar regaining some ground against the D-Mark, stock markets across Europe, which fell sharply on Monday, managed to stabilise. Two hours after the opening, the Footsie reached its best level, up 8.9 points at 3,540.4.

For much of the rest of the day, however, the London market appeared to drift and even a rebound on Wall Street, where the Dow was around 13 points ahead at the close of London trading, failed to inspire.

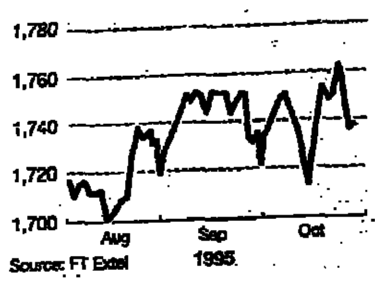
At the close, the Footsie was 3.8 points higher at 3,535.3, while the Mid 250 index closed 7.7 points lower at 3,904.8. The junior index was hit by the performance of T&N, which suffered in the wake of a US court case, and McKechnie, which warned of a slowdown in demand.

Once again, there was no news on the bid front, after the multitude of rumours which inspired the market to an all-time high last week. However, Mr Bob Semple, UK strategist at NatWest Securities, points out that the liquidity boost from already announced takeovers will continue into the first quarter of next year.

Mr Semple, whose prediction of a 3,400 to 3,600 trading range for the Footsie has been correct to date, sees the liquidity push helping the index to make new highs of 3,800 to 3,900 in the first half of 1996.

Trading volume was still relatively modest, with 629.5m shares dealt by the 6pm count. Retail business on Monday was worth £1.27bn, down from £1.45bn on Friday.

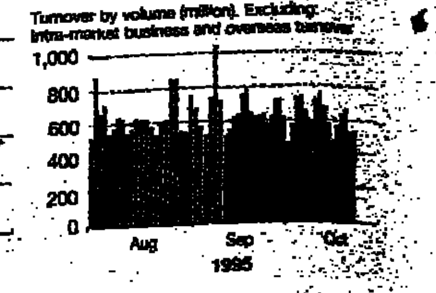
FT-SE-A All-Share index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3535.3	+3.8
FT-SE Mid 250	3904.8	-7.7
FT-SE-A 350	1759.4	+0.8
FT-SE-A All-Share	1738.30	+0.49
FT-SE-A All-Share yield	3.86	(3.85)
FT Ordinary index	2582.7	+3.2
FT-SE-A Non Fins p/e	16.75	(16.75)
FT-SE100 Fut Dec	3553.0	+3.0
10 yr Gilt yield	8.21	(8.21)
Long gilt/equity yld ratio:	2.20	(2.20)

Best performing sectors

1 Transport .... +0.8
2 Retailers, Food .... +0.8
3 Other Ser & Bus .... +0.8
4 Paper, Pckg & Print .... +0.7
5 Pharmaceuticals .... +0.7

Worst performing sectors

1 Extractive Inds .... -0.8
2 Distributors .... -0.8
3 Gas Distribution .... -0.8
4 Leisure & Hotels .... -0.7
5 Other Financial .... -0.7

Pru up on banking move

Reactions among financial stocks to news that the Pru is moving into banking were a reflection of how strongly bid fervour has taken hold.

Prudential, the country's biggest life assurer, might under other circumstances have expected its shares to leap forward strongly. The plan to staunch the flow of cash from maturing life policies to high street bank and building society deposits, by setting up its own direct banking services, is expected to produce a more competitive business. It means the Pru will retain the use of around £1bn a year and, also, give it a route into the mortgage business.

The shares were up 8 at one stage but ended the day only 3½ stronger at 390½p. Late profit-taking was less a symptom of caution over the news, than of the phenomenal rise in the shares because of takeover enthusiasm.

Prudential has outperformed the broad market by 12 per cent over the past three months and risen nearly 20 per cent during the past six weeks.

News of increased mortgage competition would normally be expected to hit some of the banks, particularly Abbey National. However, the former building society's shares reacted nonchalantly with a rise of 1½ to 551p.

News of a preliminary setback in the US courts revived asbestos liability worries at motor parts engineer T&N and the shares tumbled to the bottom of the FT-SE Mid 250 rankings in above average turnover.

Reports that T&N failed to have a $185m lawsuit dismissed in a summary judgment pushed the group's long-running asbestos litigation fears to the forefront of investor thinking and triggered deep divisions among some London brokers.

Henderson Crosthwaite reiterated its buy advice. In contrast, BZW, which moved from sell to hold two months ago, switched back to a tactical sell.

T&N is now some 20 per cent under its year's high and strong value in p/e relative terms, said Henderson. BZW takes a more wary stance. The asbestos litigation is "a low probability, high cost event", commented analyst Mr Nick Cunningham.

In 2.2m traded, the shares closed 6 lower at 160p, a decline on the day of almost 4 per cent.

Glaxo boosted

Few analysts said Glaxo Wellcome shares should rise any more but they did. Glaxo wavered around at the top of the Footsie performance charts for the second day running, as investors responded once again to the resolution of a patent challenge.

Furthermore, turnover of 16m shares showed that, whether or not it merely reflected short-covering as some dealers suggested, the rise had some real weight behind it.

Yesterday's advance of 8½ to 857½p – a 3½-year closing high – contributed to much of the fragile strength in the leading index. It built on a 52-point jump on Monday, when Glaxo settled out of court in a patent dispute over Zantac, the ulcer drug and world's best selling medicine.

Elsewhere in the sector, SmithKline Beecham, which is to report third-quarter figures today, improved 7 to 664p.

However, the release of perfectly respectable nine months' sales figures from Zeneca failed to have a lasting impact. The stock was 14 higher at one stage, but ABN Amro Hoare Govett repeated its belief that it was overvalued and it fell back, finishing 7 lower on the day at 1189p.

The Far Eastern banks, HSBC and Standard Chartered, stood out in a dull market as NatWest Securities repeated its enthusiasm about their prospects. The house cited a buoyant mortgage market in Hong Kong and a soft landing for the Chinese economy. Standard, which was only 250p a share in February, added 14 at 499p, while HSBC rose 6½ to 939½p in the ordinaries.

National Westminster Bank bounced 14½ to 651½p after a brief period of weakness.

However, Royal Bank of Scotland fell 7 to 517p in reaction to an agency cross of 5m shares carried out by Credit Lyonnais Laing late on Monday at 518p a share.

Merrill Lynch trimmed profit estimates for building materials leader Wolseley following the group's results statement, but upgraded its stance on the sector as a whole.

The broker expects a creeping rerating for building materials shares and has moved to overweight. It is looking for near term recovery in Europe and resilience in the US; and claims the sector offers good value given a p/e relative that is at its lowest level for three years.

Wolseley's full-year results were broadly in line with market expectations. But the tone of the statement on current year trading caused Merrill to reduce its profits target for this year by £14m to £251m. Down 5 at one stage, the shares closed unchanged at 376p.

A big agency cross trade hoisted turnover in Caradon to 25m. Around 11m shares were crossed at 194p. The shares ended all-square at 198p.

Precision engineer Smiths Industries added 3 at 565p for a two-day gain of 6 ahead of today's results statement. A warning about slowing demand left plastics and metal components group McKechnie 12 lower at 442p in spite of strong 1994-95 earnings.

Weighed down on Monday by negative news from leading US mini-mill Nucor, British Steel recovered 2½ to 168p in 11m shares traded.

Among food producers, Unilever retreated following reiterated sell advice from Kleinwort Benson.

The broker turned seller back in July but has become increasingly cautious on the shares, which dipped 13 to 1238p yesterday.

It is concerned about softening volume growth in Europe, notably in France. Recent VAT increases are now starting to bite, to judge by the third-quarter sales trends at Danone, the big French foods producer.

Talk of an imminent announcement on restructuring from the dairy groups helped Unigate move forward 7 to 416p.

The hot gossip centred on the possibility of news of milk bottling plant swaps between Unigate and Northern Foods sometime this week. Northern hardened 2 to 186p.

Dalgety finished 5 firmer at 422p following news of the disposal of its Golden Wonder snacks business for £54.6m cash.

Reports of a 20 per cent fall last month in unit trust sales hit fund managers M&G and Henderson Administration. The former weakened 23 to 1315p while the latter retreated 25 to 1240p.

Capital Radio dipped 7 to 469p as Panmure Gordon moved its recommendation from buy to hold.

The broker based its change of view on the latest audience figures, which show a sharp decline over the same period a year ago.

Multi-media publisher Dorling Kindersley registered a new high with an improvement of 2 to 541p.

USM-quoted computer company Magnum Power forged ahead 26 to 142p after announcing a new way of protecting computer data in the case of mains failure.

Biotech group Biocompatibles International jumped 12 to 343p. Its Proclear contact lens had been chosen by Specsavers, which has more than 300 branches in the UK.

MARKET REPORTERS:
Peter John,
Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Oct 24	Oct 23	Oct 20	Oct 19	Oct 18	Yr ago	*High	*Low
Ordinary Share	2582.7	2579.5	2599.6	2621.2	2636.5	2301.8	2686.5	2238.3
Ord. div. yield	4.10	4.10	4.08	4.05	4.04	4.47	4.73	4.02
P/E ratio net	15.67	15.66	15.92	16.01	16.05	18.08	21.33	15.35
P/E ratio nil	15.48	15.47	15.73	15.82	15.86	17.62	22.21	15.17

*For 1995. Ordinary Share index since compilation: high 2713.6 2/02/94, low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2576.8	2585.1	2580.6	2579.4	2576.1	2577.9	2583.8	2582.2	2582.6	2585.1	2575.9

	Oct 24	Oct 23	Oct 20	Oct 19	Oct 18	Yr ago
SEAQ bargains	26,726	28,498	28,064	29,624	29,215	24,673
Equity turnover (£m)†	-	1288.9	1451.0	1608.6	1309.4	1211.5
Equity bargains†	-	32,615	33,375	34,811	34,085	27,312
Shares traded (ml)†	-	570.4	569.3	658.4	639.8	467.1

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	382	Total Highs	63	Total contracts	23,688
Total Falls	855	Total Lows	78	Calls	10,641
Same	1,642			Puts	13,047

Oct. 24 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3551.0	3547.0	-3.0	3566.0	3541.0	7829	66305
Mar	3586.0	3578.0	-3.0	3586.0	3586.0	175	2888
Jun	-	3581.0	-3.0	-	-	0	734

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	3934.0	-4.0	-	-	0	3537

■ FT-SE 100 INDEX OPTION (LIFFE) (*3533) £10 per full index point

	3350 C	3350 P	3400 C	3400 P	3450 C	3450 P	3500 C	3500 P	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P
Nov	193	7½	149½	13	108½	22	72½	37½	45	61½	24½	93	10½	134	4	183
Dec	219	22½	179½	32	142	45	108½	61½	78½	83½	55	112½	36	146½	21	186
Jan	239½	32½	202½	44½	165½	58	135	78	105½	99	83	127½	61	158½	46	195½
Feb	256½	41	219½	54	184½	69	154½	88½	124	110	101	137½	78	167½	60½	202½
Jun†			266	98			202½	133			151	180			105½	237½

Calls 2,077 Puts 3,790

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3375 C	3375 P	3425 C	3425 P	3475 C	3475 P	3525 C	3525 P	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P
Nov	169	9	125½	15	88	27	55½	44½	31	70	15½	104	7	145½	3	191
Dec	198	27½	157	36	120½	49	88½	66½	61	89	40½	117½	25½	152	14½	191
Jan	213	29	176½	42	144	58	115	78½	90	103	69	131	52	163	38	198½
Mar			213½	66½			148½	98½			95	143½			58½	203½
Jun†			249½	101			191½	136			140½	182½			97½	235

Calls 203 Puts 1,212 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
50	F.P.	14.3	71	50	Consolidated Coal	65		-	-	-	-
-	F.P.	5.62	130	120	†Euro Sales Fin	125		-	-	-	-
-	F.P.	0.59	26	17½	German Sml Wts	18		-	-	-	-
-	F.P.	5.70	40	25	Hay & Robertson	38		V-	-	-	-
-	F.P.	11.4	119	112	†Indp Radio	114		V-	-	-	-
45	F.P.	17.3	61	52	†MultiMedia	60		V-	-	-	-
-	F.P.	18.3	135	103	Murray Vct	103		-	-	-	-
-	F.P.	14.4	61	60	Pembertsone	60		V-	-	-	-
100	F.P.	30.9	134	99	Pictet British	103		-	-	-	-
400	F.P.	3.62	400	400	†Preston Nth End	400		V-	-	-	-
-	F.P.	-	½	½	Upton & Sthn Wts	½		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Oct 23	% chg on day	Oct 20	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (34)	1788.80	-1.5	1815.17	2285.70	2.02	-	2285.70	1637.81
■ Regional indices								
Africa (16)	2465.51	+1.2	2436.86	3700.53	4.14	21.35	3700.53	2428.19
Australasia (6)	2192.46	-1.9	2235.02	2907.38	2.27	24.51	2951.49	1788.20
North America (12)	1536.25	-2.7	1579.32	1773.54	0.87	44.15	1831.00	1346.18

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FT-SE Actuaries Share Indices — The UK Series

	Oct 24	Day's chge%	Oct 23	Oct 20	Oct 19	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3535.3	+0.1	3531.5	3551.4	3578.6	3000.9	4.00	2.08	15.01	126.41	1402.71
FT-SE Mid 250	3904.8	-0.2	3912.5	3939.5	3938.2	3474.6	3.49	1.83	19.50	119.61	1520.22
FT-SE Mid 250 ex Inv Trusts	3924.7	-0.2	3933.3	3959.9	3957.6	3474.9	3.63	1.89	18.21	125.24	1527.96
FT-SE-A 350	1759.4	....	1758.6	1769.0	1779.4	1509.5	3.89	2.03	15.81	80.89	1426.64
FT-SE-A 350 Higher Yield	1754.5	....	1754.1	1762.5	1772.0	1507.2	4.94	1.82	13.88	76.85	1180.24
FT-SE-A 350 Lower Yield	1768.9	+0.1	1767.8	1780.3	1791.7	1474.1	2.80	2.42	18.47	43.64	1197.85
FT-SE SmallCap	1955.52	-0.1	1958.38	1965.31	1965.68	1775.97	3.32	1.66	22.64	53.84	1574.24
FT-SE SmallCap ex Inv Trusts	1942.97	-0.1	1945.66	1950.83	1951.07	1749.78	3.54	1.74	20.33	56.59	1572.32
FT-SE-A ALL-SHARE	1738.30	....	1737.81	1747.78	1757.31	1497.74	3.84	2.01	16.18	59.21	1432.61

■ FT-SE Actuaries All-Share

	Oct 24	Day's chge%	Oct 23	Oct 20	Oct 19	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	2907.76	+0.2	2903.04	2926.27	2943.33	2649.84	3.88	2.09	15.45	105.02	1218.69
12 Extractive Industries(7)	4090.57	-0.8	4124.29	4188.17	4221.39	3833.10	3.61	2.51	13.76	143.77	1172.86
15 Oil, Integrated(3)	2896.68	+0.5	2883.39	2899.82	2918.06	2606.44	4.05	2.04	15.14	107.92	1242.98
16 Oil Exploration & Prod(13)	1904.51	-0.7	1917.06	1933.76	1937.02	1859.94	2.64	1.49	31.88	49.68	1130.45
20 GEN INDUSTRIALS(278)	1939.41	-0.1	1941.06	1956.42	1967.89	1834.21	4.25	1.82	16.12	70.85	1035.22
21 Building & Construction(36)	896.56	-0.4	900.06	907.90	910.47	1041.18	4.54	1.94	14.20	37.56	736.81
22 Building Matls & Merchs(31)	1656.83	-0.5	1664.70	1679.52	1704.35	1796.73	4.49	2.01	13.82	65.30	818.36
23 Chemicals(23)	2427.42	-0.5	2438.80	2456.11	2467.21	2288.42	3.97	1.82	17.27	80.65	1123.24
24 Diversified Industrials(20)	1741.45	+0.2	1738.56	1742.23	1757.72	1725.10	5.70	1.58	13.92	87.22	946.26
25 Electronic & Elect Equip(36)	2126.03	-0.1	2128.19	2158.64	2160.15	1840.18	3.52	1.88	18.42	61.51	1083.39
26 Engineering(69)	2148.92	....	2149.92	2173.01	2178.02	1776.10	3.39	1.96	18.56	59.70	1277.58
27 Engineering, Vehicles(13)	2520.38	-0.4	2529.51	2568.44	2591.09	2231.07	3.72	1.17	28.80	92.14	1283.35
28 Paper, Pckg & Printing(27)	2886.41	+0.7	2865.36	2864.17	2869.27	2743.36	3.46	2.49	14.53	86.90	1177.89
29 Textiles & Apparel(21)	1537.70	-0.2	1541.29	1564.13	1571.29	1568.82	4.70	1.78	14.95	52.57	910.07
30 CONSUMER GOODS(91)	3475.87	+0.2	3468.65	3437.87	3437.22	2675.04	3.86	1.82	17.79	118.91	1256.47
31 Breweries(16)	2607.04	-0.2	2611.79	2634.39	2654.70	2212.42	3.82	1.99	16.44	62.79	1219.51
32 Spirits, Wines & Ciders(10)	2916.78	-0.1	2919.95	2943.35	2958.96	2761.82	4.10	1.84	16.54	106.86	1025.57
33 Food Producers(24)	2506.25	-0.4	2515.48	2529.25	2518.99	2229.71	4.04	1.80	17.19	82.35	1103.18
34 Household Goods(11)	2632.97	....	2633.09	2655.48	2642.37	2384.93	3.63	2.04	16.82	84.01	985.93
36 Health Care(17)	1972.18	-0.4	1979.72	1982.52	1974.10	1596.93	2.64	1.82	25.98	48.10	1162.90
37 Pharmaceuticals(10)	4777.40	+0.7	4743.14	4584.19	4561.43	2942.79	3.42	1.72	21.24	153.87	1592.91
38 Tobacco(1)	4502.27	+0.5	4481.10	4502.27	4553.10	3540.19	5.33	1.90	12.38	229.23	1089.24
40 SERVICES(226)	2154.00	....	2154.43	2172.18	2187.59	1876.75	3.10	2.06	19.62	59.00	1099.32
41 Distributors(30)	2657.19	-0.8	2678.55	2710.13	2705.59	2468.06	3.74	1.77	18.89	90.36	962.86
42 Leisure & Hotels(29)	2503.96	-0.7	2522.35	2542.86	2554.48	2039.07	3.19	1.85	21.13	73.67	1282.60
43 Media(43)	3370.53	-0.6	3389.57	3410.45	3424.36	2782.25	2.16	2.40	24.13	77.87	1205.01
44 Retailers, Food(16)	2024.56	+0.8	2008.81	2018.29	2063.75	1672.08	3.56	2.41	14.61	58.55	1258.62
45 Retailers, General(44)	1769.91	+0.1	1767.35	1786.62	1799.54	1635.71	3.31	2.13	17.70	49.07	991.92
48 Support Services(37)	1856.21	+0.1	1853.85	1868.27	1867.82	1476.77	2.46	2.44	20.85	35.17	1162.07
49 Transport(20)	2189.19	+0.8	2172.13	2194.58	2204.47	2204.00	3.93	1.29	24.64	72.88	893.44
51 Other Services & Business(7)	1206.26	+0.8	1197.23	1198.74	1199.30	1240.33	4.22	1.43	20.73	38.30	1079.94
60 UTILITIES(36)	2510.56	-0.3	2519.09	2536.14	2548.73	2356.13	4.55	2.01	13.71	95.19	1025.49
62 Electricity(14)	2812.16	....	2811.38	2833.58	2825.48	2474.61	3.96	2.92	10.81	116.18	1251.28
64 Gas Distribution(2)	1648.05	-0.8	1660.72	1679.92	1692.72	1843.06	7.27	0.65	26.50	119.82	826.85
66 Telecommunications(7)	2080.51	-0.5	2091.74	2105.06	2130.18	1977.59	3.94	1.71	18.56	51.48	926.37
68 Water(13)	2076.00	-0.1	2078.68	2082.38	2081.67	1846.13	5.52	2.75	8.24	85.07	1103.39
69 NON-FINANCIALS(654)	1845.25	....	1845.41	1852.24	1860.80	1619.71	3.86	1.93	16.75	82.50	1365.97
70 FINANCIALS(113)	2719.65	+0.2	2713.55	2752.98	2780.57	2109.49	4.08	2.45	12.48	103.73	1135.82
71 Banks, Retail(9)	3806.42	+0.6	3782.79	3840.75	3800.79	2760.81	3.82	2.82	11.61	140.81	1200.55
72 Banks, Merchant(6)	3630.06	....	3631.72	3656.63	3656.70	2690.31	2.56	2.74	17.85	91.76	1133.77
73 Insurance(25)	1382.39	-0.6	1391.07	1421.75	1429.14	1206.19	5.33	2.69	8.73	72.25	1012.19
74 Life Assurance(6)	3158.68	....	3157.34	3198.36	3216.72	2286.86	4.42	1.53	18.45	136.72	1286.85
77 Other Financial(22)	2393.06	-0.7	2409.75	2425.91	2426.94	1788.91	3.69	1.94	17.42	62.49	1333.10
79 Property(45)	1350.82	-0.1	1352.59	1356.14	1359.98	1441.36	4.58	1.33	20.44	46.43	809.45
80 INVESTMENT TRUSTS(133)	2918.17	-0.1	2921.10	2945.43	2950.32	2688.98	2.25	1.06	52.27	53.94	1005.48
89 FT-SE-A ALL-SHARE(900)	1738.30	....	1737.81	1747.78	1757.31	1497.74	3.84	2.01	16.18	59.21	1432.61
FT-SE-A Fledgling	1078.10	+0.1	1077.25	1079.65	1078.70	-	2.82	1.27	34.91	28.05	1106.36
FT-SE-A Fledgling ex Inv Trusts	1077.91	+0.1	1076.46	1078.18	1076.97	-	2.95	1.33	31.86	27.02	1107.34

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3527.0	3540.0	3536.3	3534.4	3529.5	3532.0	3537.0	3534.9	3539.8	3540.4	3526.8
FT-SE Mid 250	3906.6	3907.3	3906.0	3906.7	3905.9	3904.8	3905.3	3905.5	3904.5	3908.4	3904.4
FT-SE-A 350	1758.3	1761.4	1760.1	1759.2	1757.2	1758.1	1760.1	1759.3	1758.4	1761.6	1756.2

Time of FT-SE 100 Day's high: 10.30am Day's low: 8.34am . FT-SE 100 1995 High: 3593.0(18/10) Low: 2954.2(23/1) .

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	893.8	893.4	893.4	891.6	891.4	890.6	890.6	890.6	891.1	891.1	895.3	-4.2
Pharmaceuticls	4705.9	4773.4	4739.8	4748.1	4738.8	4737.1	4737.1	4736.7	4719.5	4723.9	4689.4	+34.5
Water	2062.5	2062.5	2062.8	2064.3	2064.9	2066.4	2067.0	2068.4	2070.3	2071.3	2074.1	-2.8
Banks, Retail	3828.6	3845.5	3853.1	3855.7	3845.8	3848.9	3856.0	3853.1	3855.4	3855.0	3831.1	+23.9

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL. The FT "500" has been renamed FT-SE-A Non-Financials index. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1995. © The Financial Times Limited 1995. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. DELETION: Bolton Group (Fledgling). INSERT: CRP Leisure (Fledgling).

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	556	412	-2
ASDA Group†	7,300	99½	+2½
Abbey National†	4,500	551	+1½
Albert Fisher	791	51	-
Allied Domecq†	973	517	-1
Anglian Water	405	589	-2
Argos	3,700	506	-3
Argyll Group†	2,800	331	+3
Arjo Wiggins†	1,200	242	-6
Assoc. Brit. Foods†	1,100	706	-3
Assoc. Brit. Ports	173	312	-
BAA†	1,500	485	+4
BAT Inds.†	2,600	532	+3
BET	3,200	123	-2
BICC	406	274	-
BOC†	824	883	-1
BP†	6,300	476½	+5
BPB Inds.	2,600	276	+1
BSkyB†	818	389	-
BT†	15,000	376½	-3½
BTR†	9,800	320	-
Bank of Scotland†	475	258	+2½
Barclays†	1,900	742	+2½
Bass†	970	654	-1
Blue Circle†	1,100	284	-
Booker	164	373	-1
Boots†	3,900	549½	+6½
Brit. Aerospace†	2,800	723	-
British Airways†	1,900	469	+7
British Gas†	6,900	247½	-2
British Land	1,200	359	-4
British Steel†	14,000	168	+2½
Bunzl	191	194	-
Burmah Castrol†	304	990	+7
Burton	272	107½	-
Cable & Wire†	3,100	415½	+3½
Cadbury Schweppes†	2,600	525	-
Caradon	24,000	198	-
Carlton Comms.†	412	985	-2
Coats Viyella	721	192	-
Comm. Union†	797	610	-12
Compass	511	485½	-2½
Cookson†	954	290	-4
Courtaulds†	1,300	382	-5½
Dalgety	399	422	+5
Danka	54	575	-3
De La Rue†	689	911	+3
Dixons	446	384	-
East Midland Elec.	446	883	-1
Electrocomps	173	308	-7
Eng China Clays	3,400	349	-5
Enterprise Oil†	1,800	343	+3
Eurotunnel Units	569	96	+4
FKI	146	158	-1
Fisons	401	263	-
Foreign & Col. I.T.	710	148	+½
Forte†	1,200	240	-3
Gen. Accident†	731	647	+1
General Elect.†	4,000	318	-1
Glaxo Wellcome†	16,000	857½	+8½
Glynwed	382	339	-7
Granada†	2,700	684	+1
Grand Met.†	7,400	436	-8
GUS†	1,700	665	-4
GRE†	2,200	231	-2
GKN†	542	778	-
Guinness†	1,800	508½	+5½
HSBC (75p shs)†	3,600	939½	+6½
Hammerson	103	325	-
Hanson†	10,000	194¼	+1
Harrisons Crosfield	173	152	-
Hays	1,300	368	+1
Hillsdown	546	168	-1½
IMI	307	338	-
ICI†	2,300	793	-5
Inchcape†	268	310	-2
Johnson Matthey	77	586	+1
Kingfisher†	1,600	482	-
Kwik Save	66	683	+2
Ladbroke†	1,100	166	-
Land Securities†	1,200	573	-2
Laporte	298	833	-11
Legal & General†	1,400	539	-8
Lloyds Abbey	99	448	-5
Lloyds Bank†	2,800	771	-4
LASMO†	5,800	155	-4
London Elect.†	401	924	-5
Lonrho	208	181	-
Lucas	1,500	187	+1
MEPC	248	384	+4
MFI	2,800	136	-1
Marks & Spencer†	5,100	432	-
Mercury Asset Man	338	933	-10
Midlands Elect.†	264	963	-8
Morrison (Wm.)	3,200	150	-
NFC	2,300	152	+1
NatWest Bank†	3,200	651½	+14½
National Power†	337	495	-3
Next	69	410	-
North West Water†	2,000	570	+6
Northern Elect.	1,000	833	-5
Northern Foods	1,400	186	+2
Norweb	831	1133	+1
Pearson†	858	629	-5
P & O†	3,700	473	+6
Pilkington	4,500	187	+1
PowerGen†	1,200	566	-
Prudential†	5,500	390½	+3½
REXAM†	607	398	+5
RMC†	184	1034	-18
RTZ†	985	895	-9
Racal	62	258	-
Rank Org.†	723	418	-8
Reckitt & Colman†	303	660	-
Redland†	2,000	350	-
Reed Intl.†	800	952	-4
Rentokil†	474	328	-
Reuters†	4,000	573	-5
Rolls Royce†	4,900	181	-2½
Ryl Bk Scotland†	1,700	517	-7
Royal Insurance†	1,600	385	-5
Sainsbury†	3,700	404	-2
Schroders†	26	1363	-
Scottish & New.†	2,800	587	-2
Scot. Hydro-Elect.	74	347	+2
Scottish Power†	2,900	360	+4
Sears†	2,600	107	+1
Sedgwick	244	105	-1
Seeboard	693	816	+5
Severn Trent†	1,100	657	+2
Shell Transport†	3,900	734	-1½
Siebe†	1,300	745	+3
Slough Ests	1,000	181	-1
Smith (W.H.)	683	375	-
Smith & Nephew†	1,400	182	-
SmKl Beecham†	7,000	664	+7
SmKl Beecham Uts.†	1,700	645	+8½
Smiths Inds.	1,300	565	+3
Southern Elect.†	577	955	-4
South Wales Elect.	41	916	-1
South West Water	388	511	-3
Southern Water	113	702	-3
Standard Chartd.†	6,500	499	+14
Storehouse	1,300	311	-1
Sun Alliance†	2,700	382	-
T&N	2,700	160	-6
TI Group†	674	420	+1
TSB†	1,600	269	-
Tarmac	4,500	86	-3
Tate & Lyle†	787	439	+1
Taylor Woodrow	517	107	-
TeleWest	2,100	178	-
Tesco†	3,400	303	+4
Thames Water†	1,100	513	-4
Thorn EMI†	320	1516	-14
Tomkins†	4,600	262	-2
Trafalgar House	5,200	22¼	+¼
Unigate	507	416	+7
Unilever†	2,300	1238	-13
United Biscuits	2,200	261	-3
Utd. News & Media	388	914	-2
Vodafone†	2,400	282½	-3½
Welsh Water	63	765	-3
Wessex Water	444	343	-
Whitbread†	591	610	-1
Williams Hldgs.†	579	317	+6
Willis Corroon	565	127	+1
Wimpey	459	102	-
Wolseley†	4,100	376	-
Yorkshire Elect.	172	903	+2
Yorkshire Water	106	629	-6
Zeneca†	1,500	1189	-7

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 24 / Sch)

BELGIUM/LUXEMBOURG (Oct 24 / Frs.)

CZECH REP (Oct 24 / Koruna)

DENMARK (Oct 24 / Kr)

FINLAND (Oct 24 / Mka)

FRANCE (Oct 24 / Frs.)

GERMANY (Oct 24 / Dm.)

GREECE (Oct 24 / Drachma)

ITALY (Oct 24 / Lira)

NETHERLANDS (Oct 24 / Fls.)

NORWAY (Oct 24 / Kroner)

POLAND (Oct 24 / Zloty)

PORTUGAL (Oct 24 / Escudo)

SPAIN (Oct 24 / Pts.)

SWEDEN (Oct 24 / Kronor)

SWITZERLAND (Oct 24 / Frs.)

TURKEY (Oct 24 / Tk Lira)

PACIFIC

JAPAN (Oct 24 / Yen)

HONG KONG (Oct 24 / H.K.$)

INDONESIA (Oct 24 / Rupiah)

MALAYSIA (Oct 24 / MYR)

NEW ZEALAND (Oct 24 / NZ $)

SINGAPORE (Oct 24 / S$)

SOUTH KOREA (Oct 24 / Won)

TAIWAN (Oct 24 / TW $)

THAILAND (Oct 24 / Baht)

AUSTRALIA (Oct 24 / Aust$)

AFRICA

SOUTH AFRICA (Oct 24 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 24 / Can $)

4 pm close

MONTREAL (Oct 24 / Can $)

4 pm close

INDICES

	Oct 24	Oct 23	Oct 20	1995 High		1995 Low	
Argentina							
General (29/12/77)	(u)	13409.98	13805.18	16591.10	2/1	9831.09	9/3
Australia							
All Ordinaries(1/1/80)	2080.0	2089.3	2106.8	2188.00	18/9	1823.30	9/2
All Mining(1/1/80)	931.8	939.6	950.3	1029.60	7/8	795.30	8/2
Austria							
Credit Aktien(30/12/84)	330.85	328.64	331.95	385.42	2/1	328.64	23/10
Traded Index(2/1/91)	891.70	882.15	895.71	1058.31	2/1	882.15	23/10
Belgium							
BEL20 (1/1/91)	1414.78	1408.82	1420.02	1491.39	2/8	1271.93	9/3
Brazil							
Bovespa (29/12/83)	(u)	45639.0	46898.0	48612.00	19/9	4531.80	8/8
Canada							
Metals Minls♦(1975)	(u)	4424.95	4534.28	6282.77	21/8	3806.93	1/3
Composite♦ (1975)	(u)	4315.50	4438.30	4710.30	12/7	3991.41	30/1
Portfolio§§ (4/1/83)	(u)	2096.69†	2159.75	2307.81	12/7	1953.36	30/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5944.6	5875.0	6983.10	11/7	4576.90	9/3
Denmark							
CopenhagenSE(3/1/83)	356.40	357.60	360.16	375.44	25/8	330.01	29/3
Finland							
HEX General(28/12/90)	1943.88	1898.63	1970.01	2332.22	14/9	1555.39	29/3
France							
SBF 250 (31/12/90)	1158.31	1155.11	1169.05	1322.30	12/5	1154.41	13/3
CAC 40(31/12/87)	1724.21	1721.14	1740.72	2017.27	12/5	1721.14	23/10
Germany							
FAZ Aktien(31/12/58)	770.65	773.21	792.98	846.78	19/9	708.87	30/3
Commerzbank(1/12/53)	2225.7	2233.8	2290.2	2427.80	19/9	2018.70	30/3
DAX (30/12/87)‡	2113.60	2107.42	2170.49	2317.01	15/9	1910.96	28/3
Greece							
Athens SE(31/12/80)	938.95	938.82	937.88	992.59	4/8	787.15	18/3
Hong Kong							
Hang Seng(31/7/64)	9775.66	9680.53	9895.24	10032.93	17/10	6967.93	23/1
India							
BSE Sens.♥(1979)	3486.20	(c)	3514.42	3932.09	2/1	3015.07	2/5
Indonesia							
Jakarta Comp.(10/8/82)	498.02	498.96†	500.44	619.18	11/8	414.21	18/4
Ireland							
ISEQ Overall(4/1/88)	2107.73	2114.07	2138.77	2170.73	15/9	1813.59	23/1
Italy							
Banca Comm Ital (1972)	564.51	555.09	570.87	680.54	10/2	555.09	23/10
MIB General (2/1/95)	892.0	877.0	902.0	1076.00	10/2	877.00	23/10
Japan							
Nikkei 225 (16/5/49)	18014.25	18156.24	18157.33	19684.04	4/1	14485.41	3/7
Nikkei 300 (1/10/82)	269.85	271.40	271.32	286.16	4/1	222.26	13/6
Topix (4/1/68)	1439.87	1445.16	1445.73	1563.40	4/1	1193.16	13/6
2nd Section (4/1/68)	1887.39	1887.97	1893.23	2139.98	4/1	1441.90	13/6
Malaysia							
KLSE Comp.(4/4/86)	948.41	(c)	959.23	1085.84	5/6	849.87	24/1
Mexico							
IPC (Nov 1978)	(u)	2285.40	2329.42	2622.21	8/9	1447.52	27/2
Netherland							
CBS TRtnGen(End 83)	491.2	488.8	494.8	511.90	19/9	422.99	23/3
CBS All Shr (End 83)	297.7	296.2	299.9	311.10	15/9	265.20	23/3
New Zealand							
Cap. 40 (1/7/86)	2187.85	(c)	2208.02	2266.02	20/10	1981.43	5/1
Norway							
Oslo SE(Ind)(2/1/83)	1240.78	1245.39	1262.09	1292.18	18/10	1036.09	10/3
Philippines							
Manila Comp (2/1/85)	2572.49	2585.17	2601.86	2968.12	10/7	2249.39	27/3
Portugal							
BTA (1977)	2578.3	2587.3	2605.3	2911.50	9/1	2578.30	24/10
Singapore							
SES All-S'pore(2/4/75)	507.78	(c)	512.97	536.06	5/1	472.90	23/1
South Africa							
JSE Gold (28/9/78)	1341.7♥	1349.5	1335.5	2023.00	2/1	1317.20	19/5
JSE Indl. (28/9/78)	7464.8♥	7480.8	7483.8	7517.00	18/10	6222.00	31/1
South Korea							
KoreaCmpEx(4/1/80)**	992.75	978.39	994.93	1027.37	2/1	847.09	27/5
Spain							
Madrid SE (30/12/85)	290.86	290.11	295.38	318.98	13/9	203.30	26/6
Sweden							
AffarsvarldnGen (1/2/37)	1741.5	1745.0	1778.8	1872.16	19/9	1439.80	29/3
Switzerland							
Swiss Bk Ind (31/12/58)	1409.90	1400.07	1429.95	1437.89	18/10	1174.68	13/3
SBC General (1/4/87)	1058.27	1050.13	1074.56	1079.82	18/10	870.58	13/3
Taiwan							
WeightedPr.(30/6/66)**	4986.79	4975.44	4953.56	7051.49	5/1	4503.37	14/8
Thailand							
Bangkok SET (30/4/75)	1276.08	(c)	1282.51	1472.04	10/7	1135.69	16/3
Turkey							
Istanbul Cmp.(Jan 1986)	49202.32	49622.7	49029.6	54653.90	21/4	24644.31	23/1
WORLD							
MS Capital Int (1/1/70)$	697.8*	699.1	702.0	703.88	29/9	596.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1363.11	1352.04	1380.47	1400.69	15/9	1222.41	13/3
Euro Top-100 (26/6/90)	1247.40	1240.21	1261.75	1318.88	15/9	1117.34	9/3
JCapsIDrgns (31/12/88)	(u)	333.79	333.77	349.47	14/7	282.87	23/1
Barings Emerg.(7/1/92)	145.67	146.88	146.59	159.07	2/1	117.15	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Oct	1742.5	1733.5	+2.5	1749.0	1731.0	25,777	28,963
Nov	1751.5	1743.0	+3.0	1757.5	1741.0	3,512	7,576
■ DAX							
Dec	2135.0	2126.0	+0.5	2145.5	2115.5	26,132	-
Mar	2153.5	2147.0	+3.0	2161.0	2140.0	272	-
■ OMX							
Oct	1378.25	1378.00	-	1385.00	1368.25	6,770	9,399
Nov	1387.75	1387.75	+0.25	1394.00	1377.50	3,867	5,558
■ SOFFEX							
Oct	3043.0	3066.0	+28.0	3069.0	3023.0	7,802	15,112
Nov	3041.0	3068.5	-35.8	3050.2	3041.0	13	1,594

** Sat Oct 21: Taiwan Weighted Price 4937.98; Korea Comp Ex 889.50 . Base values of all Indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Oct 24 - 2114.88 -1.98.

US INDICES

Dow Jones	Oct 23	Oct 20	Oct 19	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4755.48	4794.86	4802.45	4802.45 (19/10)	3832.08 (30/1)	4802.45 (19/10/95)	41.22 (2/7/32)
Home Bonds	103.54	103.82	103.89	104.04 (18/10)	93.83 (3/1)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1903.09	1913.53	1916.17	2008.39 (18/9)	1473.19 (3/1)	2080.39 (18/9/95)	12.32 (8/7/32)
Utilities	217.97	218.82	217.24	218.82 (20/10)	183.03 (3/1)	256.48 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 4805.70 (4836.41) Low 4724.41 (4758.37) (Theoretical♦)
Day's high 4795.22 (4815.82) Low 4753.88 (4787.27) (Actual♦)

Standard and Poors	Oct 23	Oct 20	Oct 19	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	585.06	587.46	590.65	590.65 (19/10)	459.11 (3/1)	590.65 (19/10/95)	4.40 (1/6/32)
Industrials♥	685.11	688.28	691.54	691.54 (19/10)	546.28 (3/1)	691.54 (19/10/95)	3.62 (21/6/32)
Financial	59.89	59.85	60.94	61.39 (18/10)	41.64 (3/1)	61.39 (18/10/95)	8.64 (1/10/74)
NYSE Comp.	312.32	313.83	315.39	316.39 (18/10)	250.73 (3/1)	315.39 (19/10/95)	4.46 (25/4/42)
Amex Mkt Val	525.18	531.67	534.11	553.59 (12/9)	433.12 (3/1)	553.88 (12/9/95)	29.31 (9/12/72)
NASDAQ Cmp	1036.92	1039.53	1046.97	1067.40 (13/9)	743.58 (3/1)	1067.40 (13/9/95)	54.87 (31/10/72)

■ RATIOS

	Oct 20	Oct 13	Oct 6	Year ago
Dow Jones Ind. Div. Yield	2.42	2.42	2.43	2.72
	Oct 11	Oct 4	Sep 27	Year ago
S & P Ind. Div. yield	2.09	2.08	2.07	2.43
S & P Ind. P/E ratio	17.74	17.87	17.94	20.33

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Kmart	5,629,300	9⅛	-⅜
Micron	5,603,400	73⅞	+3¾
WalMart	5,229,500	22⅝	-⅛
Citicorp	4,201,600	67⅛	+1¼
IBM	4,137,600	98⅞	+2¼
Adv Micro	4,073,200	27½	+1¼
Royal PTT	3,836,300	35⅛	-⅛
AT&T	3,609,000	61⅞	-⅛
Texas Inst	3,188,700	71	+1¼
Glaxo Wlcme	3,177,700	26⅝	+1⅛

■ TRADING ACTIVITY

● Volume (millions)	Oct 23	Oct 20	Oct 19
New York SE	329.725	380.127	406.620
Amex	19.571	18.555	19.485
NASDAQ	400.405	449.435	494.415
NYSE			
Issues Traded	3,032	3,019	3,059
Rises	780	929	1,079
Falls	1,517	1,322	1,191
Unchanged	735	768	789
New Highs	85	138	148
New Lows	68	50	48

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Dec	587.65	588.65	+0.65	589.55	586.50	89,748	190,711
Mar	593.65	593.20	+0.70	594.10	593.20	910	10,034

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ Nikkei 225							
Dec	18120.0	18200.0	+40.0	18300.0	18010.0	18,227	157,734
Mar	18160.0	18240.0	+60.0	18280.0	18130.0	19	5,086

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Tuesday, October 24, 1995.

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Toshiba Corp	9.7m	755	-15	Sumitomo Bakelite	5.9m	838	+15
Tokuyama	9.4m	784	+5	Teac Corp	5.1m	804	+14
Oki Elect Ind	9.0m	973	-14	Mitsubishi Elec	5.0m	789	-6
Ricoh Co	7.7m	1,080	+30	Mitsubishi Hvy	4.5m	783	-3
Nikon Corp	7.4m	1,430	+30	Fujitsu	3.9m	1,240	-10

4 pm close October 24

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19	12½	AAR	0.48	2.8	23	25	17½	17⅜	17⅜	-⅛
46¾	35	AMP	0.92	2.3	21	3863	40½	39⅞	40	-⅛
80¼	53⅞	AMR			15	12081	66⅜	64¾	65¼	+⅞
47⅞	39⅛	ASA	1.71	4.3	26	480	39½	39⅛	39⅜	
44¾	30¾	AbbttL x	0.84	2.1	19	8432	40⅞	40⅛	40⅜	
18⅞	12	Abitibi Pr	0.40	2.4	19	1754	16⅞	16⅜	16⅞	+½
27⅞	21	ABM Ind	0.60	2.2	15	7	27	27	27	
17½	13½	Acpincela			10	330	15¼	14¾	15⅛	+⅛
35⅞	21⅞	ACE Ltd	0.56	1.6	8	451	35⅛	34¾	34¾	-⅛
9⅞	8⅛	ACM Gvt In	0.90	9.4	8	284	9⅝	9½	9⅝	+⅛
7¾	6½	ACM GvOpp	0.66	8.9		847	7⅜	7¼	7⅜	+⅛
7½	5¾	ACM Gvt Sp	0.75	10.7		377	7	6⅞	7	+⅛
8¾	7¼	ACM Gvt Se	0.90	10.3		485	u8¾	8⅝	8¾	
9½	7⅝	ACM Man	0.90	10.4		197	8¾	8⅝	8⅝	
29⅛	10⅛	AcmeCiv	0.48	2.0	11	30	24½	24	24⅜	-⅜
38¾	8¼	Acme Elect			78	230	9⅝	9¼	9⅜	-⅛
34½	23¾	Acordia	0.72	2.8	12	22	26	26	26	-⅛
19½	8⅝	Actava	0.36	2.0	13	446	18½	18¼	18¼	
18¾	10⅛	Acuson			31	250	12¼	11⅞	11⅞	-⅛
18⅞	15⅝	Adams Expr	0.48	2.6	0	111	u18⅞	18¾	18¾	-⅛
30⅞	24⅝	AdvMic			8	13550	27⅞	26⅛	26¼	-1¼
9½	5	Advest Grp	0.16	1.7	17	59	9⅜	9¼	9⅜	

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4 pm close October 24

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close October 24

AMEX COMPOSITE PRICES

4 pm close October 24

AMERICA

US stocks recover, led by gains in bonds

Wall Street

US share prices recovered some of Monday's losses in early afternoon trading yesterday led by a bond market which also regained its footing, writes Lisa Bransten in New York.

At 1pm the Dow Jones Industrial Average was 13.01 higher at 4,768.49. The more broadly based Standard & Poor's 500 was 0.19 firmer at 585.25, but the American Stock Exchange composite was 0.31 softer at 524.85. Trading volume on the New York SE had reached 237m shares.

The Nasdaq composite improved 3.42 to 1,040.34 owing to gains in several health care stocks. In early trading United Healthcare appreciated $2⅞ to $53 and US Healthcare was $1¼ stronger at $38⅝.

In the early morning, US bond and currency markets were stronger. The benchmark 30-year Treasury bond rose nearly half a point, in spite of new supply which was set to come on to the market at mid-afternoon yesterday, and the dollar gained against the D-Mark and the Japanese yen.

Helping stocks and bonds were statements from Mr Alan Blinder, vice-chairman of the Federal Reserve, who said he might favour a decrease in the Fed funds target rate after he saw the budget package passed by Congress.

RJR Nabisco dropped $2 or more than 6 per cent to $29⅞ after warning that full-year earnings for this year and next year would be below analysts' expectations. The tobacco and food company also reported net income of 61 cents a share, in line with the mean expectation from analysts.

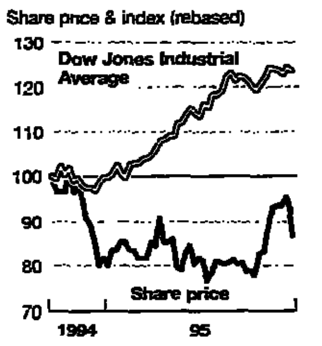
UAL, the parent company of United Airlines, jumped $6⅛ or 3.7 per cent to $176⅞ after announcing net income of $12.87 a share, 78 cents ahead of expectations. That movement helped the Dow Jones Transportation index advance 2.4 per cent or 45.88 points to 1,948.97.

Two initial public offerings got off to strong starts: Gucci, which was priced on Monday at $22 a share, was trading at $27⅝ in the early afternoon, and Intimate Brands, priced on Monday at $17, rose to $17¼ in first-day dealings.

Charles Schwab, the discount broking house, rose $1 or more than 4 per cent to $24½ after Goldman Sachs added the company to its priority list.

RJR Nabisco

Share price & index (rebased)



Source: FT Extel

Canada

Toronto had another early fall, bottoming with the TSE 300 index as low as 4,301.86. But banks recovered more than a percentage point with the Canadian dollar, and there was a 2.9 per cent rise in metals and minerals by 1pm, helping the composite to a gain of 35.77 at 4,351.26.

Noranda was up C$⅜ at C$24⅜ after saying that earnings from its mining and metals group more than doubled in the first nine months of 1995, within an earnings per share rise from C$0.35 to C$0.55. Alcan Aluminum, meanwhile, recovered C$1⅜ to C$41⅝ on renewed buying interest among international investors.

Mexico steadier

Mexico City opened higher in thin volume on what was described as a technical rebound after Monday's losses. But by midsession the IPC index had drifted back and was ahead just 0.76 at 2,286.16. Volume was weak at 2.6m shares.

Analysts said that early third-quarter results were also surprisingly good given the economy's deep recession.

SAO PAULO retreated in morning trade and by noon the Bovespa index was off 347 or 0.8 per cent at 45,293. Investors were said to be waiting for a vote in congress regarding the constitutional grounds on which the government's administrative reform proposals were based.

BUENOS AIRES recovered part of Monday's 4 per cent fall and by midsession the Merval index was up 4.34 or 1 per cent at 407.96.

CARACAS closed lower as investor enthusiasm, which had carried prices to highs for the last few weeks, dulled due to lack of news over a financing programme with the IMF. The Merinvest composite index lost 1.6 per cent to 116.96.

South African golds retreat

Shares recouped some of their early losses as a recovery in US and UK markets boosted sentiment. But golds finished weaker, as bullion struggled at low levels and amid negative sentiment following a disappointing performance overall from mining companies in the September quarter.

The overall index lost 12.2 at 5,821, while the industrials index was 16.0 softer at 7,464.8 having touched 7,448.1 during the session. The gold shares index shed 7.8 to 1,341.7.

Among the day's features was Edgars, which climbed R7 to a 12-month peak of R145 on expectations of better results when the company announces its interim earnings next week.

Automakers, Nissan's South African holding company, made its market debut at a strong *initial premium before coming back*. The company, whose public offer of 5m shares at R5 each was 37 times subscribed, closed at R5.65 after an intra-day high of R6.

De Beers was down 25 cents at R103.25, Anglos dropped R4 to R217 and Gencor managed a 35-cent advance to R13.

EUROPE

Bourses offer varied response to dollar and Dow

The latest spins in the dollar and the Dow played to a restive European audience, *writes Our Markets Staff*.

FRANKFURT turned sour in the end, the Dax index coming off an Ibis-indicated peak of 2,132.63 to close 1.98 lower at 2,114.86. Turnover eased from DM7.4bn to DM6.5bn.

In chemicals, Hoechst rose DM4.70 to DM349.50 as it *sought US FDA approval for a new allergy drug*; BASF gained DM2.05 at DM309.65 in spite of a chemical explosion at one of its plants; Bayer, quiet on the day, lost DM1.70 at DM361.30.

Mr Andreas Schmidt, chemicals analyst at BZW in Frankfurt, did not link the share movements with the news. *Hoechst, he said, had been* lifted by the MMD pharmaceuticals acquisition in the US, and by restructuring; this gave it the prospect of accelerated earnings per share growth and a product profile which was less susceptible to the bulk chemicals cycle.

Pharmaceuticals saw a loss of DM1.97 to DM95.28 in Schering, taking *its fall to nearly 6* per cent in six days. The company was suffering less from the oral contraceptives scare, said Mr Schmidt, than from a series of events including the *abrasive strength of the* D-Mark against customer currencies and, with the debut of Merck last week, its loss of exclusivity on the Frankfurt bourse. *Merck put on 34 pfgs at* DM56.35, putting it on a prospective 1996 p/e ratio of 14.5, against Schering's 17.5.

Elsewhere, Thyssen rose DM3.30 to DM256.20 on talks with Chile about a possible $1bn order for a *Transrapid train route connecting Santiago and Valparaiso*.

MILAN was absorbed by the start of the debate of no confidence in the government, although news that Gemina had postponed its planned merger with Ferruzzi *Finanziaria indefinitely also provided excitement*. The Mibtel index made a technical rebound, recovering 1.5 per cent or 139 points to 9,051 as the Comit put on 9.42 at 564.51.

FT-SE Actuaries Share Indices

Oct 24								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1359.86	1361.78	1360.13	1359.56	1359.89	1363.89	1363.89	1363.11
FT-SE Eurotrack 200	1487.32	1489.02	1496.30	1486.42	1498.85	1492.51	1491.66	1490.61

	Oct 23	Oct 20	Oct 19	Oct 18	Oct 17
FT-SE Eurotrack 100	1352.04	1380.47	1399.54	1412.52	1406.73
FT-SE Eurotrack 200	1479.98	1500.56	1516.67	1531.34	1525.02

Base 1000 (26/10/90); High/day: 100 - 1364.79; 200 - 1490.85 Low/day: 100 - 1358.71 200 - 1484.67 † Partial

Ferruzzi Finanziaria was suspended from trade at one point due to an excessive price rise. After requoting, the stock closed 11.3 per cent up at L1.074 after news of a L1,035bn rights issue, and as rumours of a takeover abounded.

Montedison, Ferruzzi's operating subsidiary, added 4.5 per cent at L1.065, while Gemina fell L15 or 2.5 per cent to L586.

Mr James Cornish, European *strategist at NatWest Markets*, who visited the country late last week, said yesterday that he now expected early elections to take place, probably by December.

"In the elections, if either the centre-right or centre-left *achieved an adequate majority* they would both follow a sensible policy of budget deficit cutting," he said. But there remained serious risks to this scenario, he added, from the extreme-left and the Northern League. "Italian equities, despite their 28 per cent fall since April 1994, are not yet so cheap as to make it worth *ignoring the risks*."

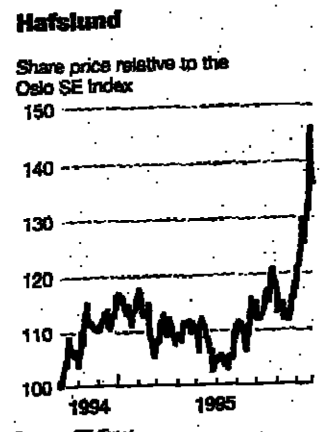
PARIS broke out of a six-session losing pattern on the last day of the account, but the gain was not seen as indicating necessarily that the market had shaken off its negative phase. The CAC-40 index was up 3.07 to 1,734.21, off a 1,737 day's high, and in turnover in excess of FFr5bn.

Suez, which fell to an intra-day record low of FFr169.20, recovered to FFr173.00, down 90 centimes. The company was downgraded to sell by James Capel in London, which argued that the group's exposure to the property sector remained a significant worry. Capel cut its *estimates and forecast a loss of* some FFr3.6bn in 1995, against a previous estimate of a profit of FFr1.8bn. The situation for 1996 and 1997 was little better, as Capel downgraded estimates respectively from profits of FFr2.3bn and FFr3.7bn to *FFr655m and FFr1.8bn*.

L'Oreal lost FFr15 or 1.3 per cent to FFr1,180 ahead of today's first-half results, while Danone fell FFr9 to FFr742 after a broker downgrade.

Hafslund

Share price relative to the Oslo SE index



Source: FT Extel

AMSTERDAM was interested in Philips and the chemical companies and, with overall sentiment somewhat more positive than in recent sessions, the AEX index made a gain of 3.39 to 452.56.

Philips rose Fl 1.60 to Fl 68.70 in volume of more than 3m shares ahead of tomorrow's third-quarter results. Analysts were forecasting a rise in net profit to between Fl 544m and Fl 560m, from Fl 530m.

Chemicals were well supported in a technical recovery from recent falls: Akzo Nobel advanced Fl 3.90 to Fl 182.70 and DSM Fl 1.80 to Fl 121.20.

ZURICH's chemicals sector *was as mixed as that of Frankfurt's*, but it gained more than a percentage point overall as the SMI index moved up on the firmer dollar and closed 21.5 higher at 3,062.3.

Sandoz climbed SFr29 to SFr938 ahead of tomorrow's third-quarter figures. Swissair rose SFr23 or 3.3 per cent to SFr713 after news that it had named Mr Philippe Bruggisser to succeed *Mr Otto Loepfe* as chief executive.

OSLO's decline of just 2.43 to 717.35 in the total index masked high volatility in Hafslund Nycomed, whose A shares tumbled NKr11.50 to NKr173.50 on doubts about the proposed merger with Ivax, of the US, and subsequently recovered to finish NKr4 down on balance at NKr181. The market remained in doubt as to whether either company would secure the shareholder approval required for the deal.

LISBON hit its second successive 1995 low, the BTA index falling 9.0 to 2,578.3. Sonae, the industrial group, dropped Esc90 or 8.2 per cent to Esc1,000 following first-half results below expectations.

Written and edited by William Cochrane and John Pitt

ASIA PACIFIC

Nikkei average loses early gain on technical selling

Tokyo

A fall in US share prices weighed on sentiment, and technical selling cancelled out earlier gains in the high-technology sector, writes Emiko Terazono in Tokyo.

The Nikkei 225 average lost 141.99 at 18,014.25 after extremes of 18,014.05 and 18,261.46. Investors were discouraged by Monday's profit-taking on Wall Street and, although there was buying of semiconductor related stocks, a decline in futures prices triggered arbitrage unwinding and this, finally, depressed the index.

Volume was 352.9m shares, against 298m. The Topix index of all first section stocks fell 6.29 to 1,438.87 and the Nikkei 300 shed 1.55 to 269.85. Declines led rises by 601 to 394, with 196 issues unchanged. In London the ISE/Nikkei 50 index was 0.17 firmer at 1,225.93.

Worries over the unwinding of a large arbitrage overhang had capped the rise of the Nikkei index, after a strong performance in the third quarter, and in the first week of October; traders said that long arbitrage positions currently *amounted to more than 2.2bn* shares, making the underlying cash market vulnerable to a fall in futures. They attributed the build up of positions to easier funding and *low returns from most other investments*, both due to historically low short-term interest rates.

High-tech stocks weakened and the electronics sector lost 0.6 per cent, with Toshiba, the day's most active issue, off Y15 to Y755 and Oki Electric down Y14 to Y973. Semiconductor related stocks were firm: Tokuyama, a chemicals group producing semiconductor materials, gained Y5 at Y784; Sumitomo Bakelite rose Y15 to Y838; Nikon, in chip manufacturing equipment, put on Y30 at Y1,430.

Pulp and paper companies rose following strong interim earnings. New Oji Paper added Y7 at Y987.

Real estate companies fell 1.2 per cent as a group. Mitsui Fudosan lost *Y20 at Y1,150*. Banks were also lower, with Industrial Bank of Japan dipping Y40 to Y2,870 and Dai-Ichi Kangyo Bank Y20 to Y1,800.

Leading brokers, which posted good interim figures, lost ground as profits were taken. Nomura Securities receded Y30 to Y1,930.

Foods, relatively highly weighted in the Nikkei 225, declined on arbitrage-linked selling. Kirin Brewery, the leading beer manufacturer, slipped Y10 to Y1,040 and Ajinomoto, the country's largest food company, eased Y10 to Y1,000.

In Osaka the OSE average was 17.40 softer at 19,516.47 in *volume of 42.4m shares*.

Roundup

Sentiment in HONG KONG was disturbed by a growing conviction that US interest rates would not be cut at the mid-November meeting of the US Federal Open Market Committee. The market finished near the day's lows but trade was generally unexciting, dealers remarked.

The Hang Seng index retreated 104.87 or 1 per cent to 9,775.66, just above the day's low of 9,763.66. Turnover was *HK$2.8bn, compared with Monday's HK$2.9bn.*

Among property issues, Sun Hung Kai ended at HK$61, down HK$1, having earlier hit *a low of HK$60.75. Brokers said* the main reason for the fall was profit-taking following the stock's rise in recent weeks.

Cathay Pacific fell back following Monday's news that the China National Aviation Corp was likely to receive approval to set up *Hong Kong airline* operations next year. Cathay closed 40 cents lower at HK$11.60, while its parent Swire Pacific lost 75 cents at HK$60.75. But some analysts said Cathay and Swire profits faced little danger in the near future. Elsewhere, HSBC fell HK$1.50 to HK$112.

SHANGHAI's B shares lost 1 per cent to 55.21, affected mainly by a further decline in Inner Mongolia Erdos Cashmere Products, off 3 per cent at $0.448.

SYDNEY closed lower, with investors lacking confidence *and cautious ahead of today's* inflation data.

The All Ordinaries index fell 9.30 to 2,080.00.

Coles Myer, off 2 cents at A$4.50, said that it hoped to make an announcement on the composition of the new board by the end of the week.

SEOUL regained much of Monday's loss, moving ahead 1.7 per cent on expectations of *an early resolution to the political slush fund scandal*. Blue chip buying took the composite index ahead 16.36 to 992.75 as turnover eased from Won494bn to Won484bn.

Shares connected to the former president, Roh Tae-woo, by his children's marriages also recovered: Sunkyong rose Won300 to Won20,500 after a low of Won19,500, while Dong Bang gained Won200 at Won28,000, up from Won26,700.

Brokers said the market could still tumble due to the slush fund scandal as the prosecutor's office had yet to release the outcome of its investigation.

SINGAPORE ended weaker in extremely thin volume, Jardine companies accounting for much of the trading activity there as the Straits Times *Industrial index* shed 18.48 to 2,089.44. KUALA LUMPUR also reported light trading as the KLSE composite index receded 10.82 to 948.41 in volume of 67m shares, some speculators taking the opportunity to sell ahead of Friday's national budget announcement.

MANILA steered clear of blue chips, opting to punt in rarely traded oil and mining stocks in the hope of short *term profits. The composite* index lost 12.68 at 2,572.49, although the oil sub-index nudged up a little.

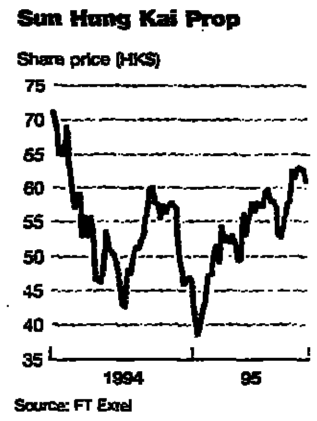
WELLINGTON ended off its low for the session in a late wave of positive sentiment. The NZSE-40 capital index shed 18.15 to 2,187.85, but most of the fall was accounted for by a number of stocks trading ex-dividend.

Lion Nathan made 4 cents to NZ$3.30 ahead of its annual results tomorrow. Telecom, 5 cents easier at NZ$6.35, failed to benefit from the market's late recovery.

BANGKOK extended a decline which stretched back to July, the SET index ending 6.43 lower at 1,276.08 in sluggish turnover of Bt3.09bn. JAKARTA saw more heavy selling in Timah, the mining stock which made a recent market debut, the composite falling 1.48 to 498.96 with Timah another Rp75 down at Rp2,575, now below its offer price.

Sun Hung Kai Prop

Share price (HK$)



Source: FT Extel

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	MONDAY OCTOBER 23 1995								FRIDAY OCTOBER 20 1995					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (82)	180.77	-1.1	169.52	113.92	130.18	160.66	-0.8	4.04	182.80	171.96	115.61	132.85	162.02	191.01	157.95	170.29
Austria (27)	169.52	-0.3	158.97	106.83	122.07	122.02	-1.2	1.37	170.06	159.99	107.57	123.60	123.55	199.28	167.48	182.23
Belgium (35)	195.19	0.5	183.03	123.00	140.55	137.14	-0.5	3.82	194.19	182.67	122.82	141.12	137.79	201.12	164.78	170.85
Brazil (28)	*149.00*	*-1.6*	*139.72*	*93.90*	*107.29*	*263.59*	-1.6	1.61	*151.41*	*142.43*	*95.76*	*110.04*	*267.86*	-	-	-
Canada (100)	134.14	-4.5	125.79	84.53	96.59	132.91	-3.0	2.77	140.54	132.21	88.89	102.14	137.06	150.83	121.81	136.40
Denmark (33)	284.32	-0.3	266.61	179.17	204.73	208.47	-1.1	1.55	285.19	268.28	180.37	207.26	210.87	295.99	236.61	260.44
Finland (25)	*225.67*	*-4.4*	*211.62*	*142.21*	*162.50*	*199.71*	-5.2	*1.81*	*235.98*	*221.99*	*149.25*	*171.50*	*209.55*	276.11	171.13	198.69
France (100)	167.76	-0.6	157.31	105.72	120.80	126.56	-1.2	3.41	168.74	158.73	106.72	122.63	130.17	191.17	157.79	167.27
Germany (59)	158.28	-1.8	148.42	99.74	113.97	113.97	-2.7	2.10	161.14	151.59	101.92	117.11	117.11	167.74	135.39	143.61
Hong Kong (55)	381.24	-0.1	357.51	240.26	274.54	378.43	-0.2	3.84	381.83	359.19	241.49	277.50	379.06	391.00	277.40	378.63
Ireland (16)	246.04	-0.7	230.72	155.05	177.17	213.66	-1.3	3.52	247.81	233.11	156.73	180.10	216.66	250.55	195.34	208.01
Italy (58)	67.37	-2.7	63.18	42.46	48.52	81.33	-1.8	1.87	69.24	65.14	43.79	50.32	82.79	82.71	65.45	77.42
Japan (483)	146.78	0.4	137.64	92.50	105.70	92.50	-0.0	0.82	146.25	137.58	92.50	106.29	92.50	164.82	136.95	163.23
Malaysia (106)	473.68	0.4	444.19	298.51	341.10	458.90	0.0	1.79	471.80	443.83	298.40	342.89	458.90	561.96	398.16	553.34
Mexico (18)	986.48	-1.9	925.06	621.66	710.36	7199.44	-2.0	1.93	1005.47	945.84	635.92	730.72	7343.53	2267.00	647.81	2267.00
Netherland (19)	257.13	-0.3	241.13	162.04	185.17	182.04	-1.2	3.59	258.02	242.73	163.19	187.52	184.34	263.89	207.60	216.48
New Zealand (14)	82.82	0.1	77.66	52.19	59.64	66.51	0.0	4.29	82.72	77.82	52.32	60.12	66.51	85.49	69.56	73.86
Norway (33)	236.19	-1.0	221.48	148.84	170.08	197.27	-1.3	2.12	238.66	224.50	150.94	173.44	199.87	243.79	192.92	207.87
Singapore (44)	373.38	0.6	350.13	235.30	268.87	243.09	-0.0	1.69	371.22	349.21	234.79	269.79	243.09	414.26	313.94	395.68
South Africa (45)	*365.49*	*0.3*	*342.73*	230.33	263.19	290.33	0.1	4.02	364.30	342.70	230.40	264.75	290.10	368.62	281.06	338.49
Spain (38)	145.87	-1.8	136.79	91.93	105.04	133.17	-2.3	4.24	148.56	139.75	93.96	107.97	136.26	160.51	124.10	141.54
Sweden (48)	312.82	-1.4	293.34	197.13	225.26	310.04	-1.6	1.93	317.16	298.35	200.59	230.50	315.01	320.43	225.80	241.13
Switzerland (41)	*220.98*	*-1.1*	*207.20*	*139.24*	*159.11*	*154.26*	-2.5	*1.72*	*223.54*	*210.28*	*141.38*	*162.45*	*158.15*	*223.54*	*158.36*	*165.46*
Thailand (46)	163.33	0.1	153.16	102.93	117.62	158.88	0.0	2.56	163.17	153.50	103.20	118.59	158.88	-	-	-
United Kingdom (207)	225.25	-0.3	211.22	141.95	162.21	211.22	-0.6	4.05	225.89	212.49	142.87	164.17	212.49	227.31	187.07	200.89
USA (503)	*239.91*	*-0.4*	*224.97*	*151.18*	*172.76*	*239.91*	*-0.4*	*2.45*	*240.88*	*226.59*	*152.34*	*175.06*	*240.88*	*242.04*	*182.33*	*189.83*
Americas (649)	218.47	-0.6	204.87	137.68	157.32	183.44	-0.5	2.45	219.74	206.71	138.97	159.69	184.40	-	-	-
Europe (739)	192.75	-0.9	180.74	121.47	138.79	160.30	-1.4	3.14	194.43	182.90	122.97	141.30	162.63	199.02	163.04	172.70
Nordic (139)	283.60	-1.6	265.94	178.72	204.22	238.79	-2.0	1.84	288.30	271.20	182.34	209.52	243.77	295.02	215.79	233.73
Pacific Basin (832)	157.13	0.2	147.35	99.02	113.15	102.90	-0.1	1.26	156.73	147.44	99.13	113.91	102.96	173.52	145.83	172.29
Euro-Pacific (1571)	171.87	-0.3	161.17	108.31	123.76	124.65	-0.7	2.14	172.35	162.12	109.00	125.25	125.54	178.33	154.73	172.34
North America (603)	233.37	-0.6	218.84	147.07	168.05	232.78	-0.5	2.47	234.68	220.76	148.42	170.55	233.84	235.91	178.86	186.51
Europe Ex. UK (532)	171.35	-1.2	160.68	107.98	123.39	133.19	-1.9	2.61	173.44	163.16	109.70	126.05	135.79	179.46	146.45	153.91
Pacific Ex. Japan (349)	255.95	-0.2	240.01	161.30	184.31	224.54	-0.3	3.26	256.54	241.33	162.25	186.44	225.21	266.72	211.19	260.78
World Ex. US (1762)	172.63	-0.4	161.88	108.79	124.31	128.11	-0.8	2.19	173.30	163.02	109.60	125.94	129.09	178.73	155.42	174.39
World Ex. UK (2058)	190.15	-0.4	178.31	119.83	136.93	155.36	-0.6	2.10	190.92	179.60	120.75	138.75	156.33	191.32	163.48	176.31
World Ex. Japan (1782)	219.33	-0.6	205.67	138.22	157.94	203.49	-0.8	2.79	220.75	207.66	139.61	160.43	205.18	221.43	178.95	188.70
The World Index (2265)	193.22	-0.4	181.19	121.76	139.14	160.25	-0.6	2.29	193.98	182.48	122.68	140.97	161.25	194.25	165.92	178.48

Latest prices were unavailable for this edition. Markets closed 23/10/95. Malaysia, New Zealand, Singapore and Thailand.

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